

Ethics in Economic Thought

Selected Issues
and Various Perspectives



Joanna Dzionek-Kozłowska
Rafał Matera

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in Economic
Thought



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Preface

The global financial crisis, which began in 2007, apart from the disruptions in the economies of most countries in the world, led to the impairment of the authority of economists, and to some extent to the impairment of the subject of economics itself. From different sides, naturally, the following questions were posed: what were the causes of the crisis, who is responsible for its outbreak, how does the crisis differ from previous ones, is the world on the verge of another great depression? Also, the question arose why politicians and economists responsible for economic policy did not warn against the oncoming threat in time. Academics and publicists discussed heatedly the reason why, despite the continuous development of the theory of economics and the advancement of research methods applied by economists, once again they failed to prevent perturbation in the world economy. Such voices in a sense put the economists on the spot and forced them to account for the circumstances. It is striking, however, that both diagnoses and recipes for recovery presented in specialized journals as well as in the media directed at the wide public were significantly diversified.

The cause of the crisis is associated with, on the one hand, the deepening financialization in recent decades that was accompanied by excessive deregulation of financial markets, which resulted in speculations of the derivatives conducted on a global scale being made beyond the control of governments. On the other hand, though, the emphasis is placed on the mistakes committed by Federal Reserve System (expansive monetary policy and artificial reduction of the interest rates), subjecting economic policy to short-term political needs, the creation of a defective institutional structure on the American property market as well as the falling moral standards of the participants of economic life (see e.g. Barro 2009; Becker, Myerson, Scholes 2009; Bernanke 2010; Boettke, Smith and Snow 2011; Cochrane 2011; Colander 2011; Kates 2011; Krugman 2009; Romer 2009; Skidelsky 2009; V. Smith 2010; Stiglitz 2012).

In view of the significance of the latter when discussing the causes and effects of the crisis, among the claims put forward more often is the question of the need to pay more attention to the ethical aspects of economic activity, both in

practice and at the stage of the creation of theoretical concepts. Paradoxically, it was the crisis that triggered economists' interest in that dimension of economic life which had been disregarded for years. The fact gives hope that the present phase of the economic destruction will be named a 'creative' one, to use the term popularised by Joseph A. Schumpeter. One of the possible, and at the same time the most natural starting points to re-establish the importance of ethical aspects of economic activity refers to certain reflections present in the works of economists and representatives of social sciences. Interestingly, examining economic literature frequently allows for the discovery of such observations that have been overlooked for years, as the central point of the analysis has been solely economic in nature. This gap can, to some extent, be filled by the book *Ethics in Economic Thought. Selected Issues and Various Perspectives*.

An important incentive for us to conduct research into the ethical dimension of economic thought was also the belief that the humanistic aspect of economics has to be accentuated. Disregarding the ethical aspects when it comes to economic theories may be connected with the need to obtain greater precision and internal logical consistency of the created economic models. The side effect of that is the formalization, mathematization and establishment of the paradigm within which economics is seen as a kind of applied mathematics purposely detached from reality. Consequently, there is a tendency to accept certain assumptions unreflectively or to oversimplify the discussion. It is puzzling that, in spite of the creation of a powerful analytical apparatus and the development of analytical tools, the prediction abilities of economic and econometric models are still very poor, which is distinctly demonstrated by the recent crisis. *Ethics in Economic Thought. Selected Issues and Various Perspectives* should encourage a wider approach to economics and present it with a 'human face'.

The monograph is the fruit of our more than ten-year-long study. The findings of the research have partially been presented in the Polish scientific journal "Annales. Ethics in Economic Life" in articles published in the years 2001–2014¹.

¹ In total, in the indicated period, 11 articles were published in "Annales. Ethics in Economic Life", four of them were written by Joanna Dzionek-Kozłowska and seven of them by Rafał Matera (three of which were written in collaboration with Paulina Matera). When writing the monograph we draw upon the ideas presented in nine of the articles, i.e. R. Matera (2001), *Egalitarianism and the concept of the world integration in the eyes of Gunnar Myrdal* (vol. 4, 91–99); J. Dzionek-Kozłowska (2002), *Alfred Marshall. Economics and ethics* (vol. 5, 119–126); R. Matera (2003), *The vision of consumer society by Thorstein Veblen that is who is the idler in the 21st century* (vol. 6, 98–105); J. Dzionek-Kozłowska (2006), *The Economist as preacher: George J. Stigler versus Alfred Marshall* (vol. 9 (1), 67–76); R. Matera, P. Matera (2011), *Morals, religion and the development of capitalism in the eyes of Deepak Lal* (vol. 14 (1), 55–65); R. Matera (2013), *The relations of economics and ethics in the views of Mohandas Gandhi* (vol. 16, 307–318); J. Dzionek-Kozłowska (2013), *Economics as a positive science. Reflections on the margin of 'Economics of good and evil' by Tomáš Sedláček* (vol. 16, 335–344); R. Matera (2014), *Zygmunt Bauman's Ethical Warnings in the Area of Economics. The Third Millennium's Perspective* (vol. 17(4), 7–22). As regards the

This material was only a starting point for the conclusions presented in the consecutive chapters of the following book. As we are both economists, the relations between ethics and economics were discussed from the point of view of economic sciences, however, we did not shun references to sociological and political problems.

The broadly defined ethical aspects of economic life are the central issues of the book. In respective chapters we analyse why mainstream economists so rarely turn to ethical criteria, on the other hand, though, we present examples of interest in these issues by the representatives of heterodox economics, especially by the advocates of the widely understood institutionalism. We also refer to thinkers not directly connected with economics as a science as we believe that such a perspective may widen the analysis of the ethical aspects. The most often cited authors comprise: David Hume, Adam Smith, William N. Senior, John Stuart Mill, Alfred Marshall, Thorstein Veblen, Max Weber, Gunnar Myrdal, Friedrich August von Hayek, George Stigler, Douglass Cecil North, Mark Blaug, Deirdre McCloskey, Deepak Lal, Alan Beattie, Tomáš Sedláček, and the only Pole in the circle, though exceptionally not an economist, Zygmunt Bauman.

In many excerpts of the book we resume the issue of legitimacy of the division between positive and normative economics and one of the most difficult questions of economic sciences – the relation between the theory of economics and economic practice. The issue in question is directly linked with the problem of determining the role – adopted and possibly undertaken – by economists in solving real economic problems.

The monograph repeatedly covers the question of the actual purpose of running an economic activity as well as the problem of referring to ethical values by entrepreneurs and the Aristotelian dilemmas differentiating between needs and wants so as to better understand the evolution of societies towards consumerism. On the other hand, we referred also to the meaning of cultural factors, the role of religion or, in general terms, the significance of informal institutions in the development of societies. We tried to identify them in the context of the discussed problems of wealth and poverty of nations, reminding the reader in a way that the non-solved question has been a major issue of economic research for years, put on a kind of pedestal of the problems analysed in economics by the father of the discipline – Adam Smith. In respective chapters we referred to the concept present in modern economic literature of stimulating development and

last chapter it is an extension of the deliberations presented by Joanna Dzionek-Kozłowska in the chapter *Electoral systems and corruption. The economic approach* (2013) published in Polish in the monograph *Political creation of economic order. Theory and practice* (eds. M. Kalinowski, A. Pieczewski, Łódź: Łódź University Press, 87–99) and the article *Political corruption and electoral systems seen with economists' lenses* published in "Annales..." (vol. 17(4), 79–92). The draft version of the third chapter was published as a working paper in "Lodz Economics Working Papers" (5/2015).

providing equal opportunities for less developed countries, which led to pondering about the role of the country in the economy both in a national and global context. At this point we paid special attention to the issue of corruption. The presentation of the phenomenon by economists appeared intriguing as the very assessment of the issue in question in the context of economic growth is by no means unambiguous. What is more, its analysis with the use of economic tools is a perfect example of the so-called economics imperialism – the use of economic tools for the analysis of the subjects lying beyond the traditional field of economic studies.

Whenever it proved possible we strove to refer to old theories in the modern context. For that reason, in the case of many of the presented concepts, we confronted them with new ideas emerging under the influence of new economic circumstances.

The author of chapters 1, 3, 7 and 9 is Joanna Dzionek-Kozłowska, while chapters 2, 4, 5, 6 and 8 were written by Rafał Matera. We read each other's texts critically, though the final shape of the monograph is the fruits of a number of discussions about them. Naturally, both of us bear responsibility for the whole project. The last element that contributed to the publishing of the book was our institutional harbour – the Department of History of Economic Thought and Economic History of the University of Lodz.

Economist as Preacher Or Technocrat Or Dentist. Or How the Economists Advise

In contemporary orthodox economics, statements directly referring to the issues of ethics appear quite rarely, yet the breakdown of the economic performance in 2008 undoubtedly led to an increased interest in the ethical dimension of economic activity. Nevertheless, economists still somewhat unwillingly engage in discussions on the subject of ethical questions, even when those issues seem to be playing a significant role in the processes occurring at an economic level. The expression used in the title of the chapter ‘economist as preacher’ would possibly sound very worrying to most modern representatives of this science. It seems, however, that the problem of fulfilling or not fulfilling the role of preachers by economists calls for deeper consideration, and regardless of the final conclusion it is worth discussing what the underlying factors of the lack of greater interest in ethical issues on the part of orthodox economists are.

The starting point for the deliberation are the reflections by George J. Stigler,¹ the author of the already cited phrase ‘economist as preacher’, that were presented in a series of lectures from the beginning of the 1980s and published in a collection of essays compiled under a common title *Economics or Ethics?*²

¹ George J. Stigler (1911–1991) is a representative of the so-called Chicago school and for many years of his scientific career he had been associated with that university. His research interests comprised the theory of prices, the functioning and structure of markets, issues connected with the problem of access to information, the role of the state in economy and the history of economic thought. In 1982 he received the Nobel Prize ‘for his seminal studies of industrial structures, functioning of markets and causes and effects of public regulation’ (see also Becker 1993; Friedman 1999).

² I refer here to three essays-lectures: (1) *The Economist as Preacher*, (2) *The Ethics of Competition: The Friendly Economists* and (3) *The Ethics of Competition: The Unfriendly Critics*. It needs to be noticed that in the indicated collection *Economics or Ethics?* the fourth essay is also included – *The Economists and the Problem of Monopoly* (Stigler 1982, 3–54).

Economist as preacher. What does it really mean?

In order to settle the debate whether economists really do not fulfil their function of preachers it needs to be defined precisely what adopting such a role entails. In this place one has to refer to the explanation presented by Stigler, although he himself warned that his approach does not profess to be precise. Nonetheless, it should be noted that through 'preaching' he understood 'a clear and reasoned recommendation (or, more often, denunciation) of a policy or form of behaviour by men or societies of men' (Stigler 1982, 3).

The precision of the presented definition may indeed leave much to be desired, because in the first place there is no mentioning of the scope and subject of the recommendations in question. With such a broad formulation, being a preacher would involve to all intents and purposes putting forward claims considering any sphere of life (as long as they are 'clear and reasoned'). Indicating the subject of advising/preaching remains inexplicit. One may still presume that if such a role was to be resumed by economists, their advice and suggestions to a greater or lesser degree should refer to economic life. From the context of further claims by Stigler it follows that indeed he concentrates on statements concerning economic problems, and Stigler's preacher essentially resembles an economic adviser. In this respect, economists do actually become such preachers (at least some of them).

The differentiation between economists assuming the role of 'common' advisers and those playing the part of advisers-preachers may boil down to determining whether economists, apart from indicating solutions to economic problems, also define the objectives of economic policy (economist-preacher) or whether they confine themselves solely to demonstrating the measures (economist-advisor). Nevertheless, in practice, drawing a line between method recommendation and objective indication is more problematic. On account of this, such a distinction would only be valid as a theoretical concept.

A delicate difference between 'common' advisers and advisers-preachers, though not explicitly stated by Stigler, may also be based on the degree of their engagement in promoting presented solutions and the form of argumentation. The name 'preacher' may be applied to those who are characterized by greater involvement and resort to emotions rather than the logical reasoning of the recipients of their advice. Similar to the previous case, in such a criterion, differentiating in practice between preachers and 'common' advisers would also be extremely difficult. Thus resting on the broad understanding of what it means to be an economist-preacher, among the great number of presented advice and suggestions on the subject of economic life and policy it seems reasonable to put forward the following:

- 1) a situation in which recommending or negating the undertaken course of action disregards non-economic issues (both justification and recommendation are based on argumentation or reasoning including only economic variables);

2) a situation in which non-economic aspects are, to a greater or lesser degree, taken into consideration, however, the final recommendation regarding the course of action is based on economic criteria such as e.g. possibly achievable level of GDP, the given pace of economic growth, certain level of inflation, the given increase in the pace of foreign investment influx etc.;

3) a situation when indicating a solution the non-economic aspects are not only taken into consideration, but they also have an important or even decisive meaning for the presented solutions or recommendations.

It seems that among the above-mentioned instances the most commonly repeated scenario is situation number 1, which is in fact the aftermath of the analytical tools used by economists. The habit of applying econometric models determines or even forces economic advisors to include these variables that are measurable and applicable in the form of statistical data. Moreover, such an advisory may appear for economists to be relatively 'safe'. When justifying their claims they may directly refer to the theory of economics, and thanks to that their statements might appear to be more objective. And even if the advice is not taken favourably, the authority of economist-adviser is to a greater extent protected from potential criticism through the prestige of economics as a science. It may be illustrated with the use of the claims to increase government spending in order to curb unemployment or to increase economic growth that were based on the Keynesians macromodels of the American economy (Mankiw 2006, 31–32) or the classical economists calls for the free trade based on arguments from the theory of foreign trade or the US Council of Economic Advisers proposal to cut tax rates to protect the American economy from slump at the beginning of the 21st century based on a mainstream economic model (*ibid.*, 42).

As regards scenario number 2, there may be applied the argumentation of the slogan 'honesty pays': convincing entrepreneurs that being honest in the long run will be more beneficial for them (will render greater profits) than resorting to cheating. We are talking about honesty which may even be regarded as promoting certain moral values. It needs to be emphasized, however, that the key criterion is purely economic, that is to say the profit. Honesty is not presented as a value in itself or alternatively a virtue worthy of cultivation from the point of view of leading to a dignified life, happiness, peace of mind or eternal salvation. In this case honest conduct is only a way to maximize profit. It is a sign of the times that reference to such objectives appeals to recipients significantly more than other values.

The third scenario is of a completely different nature, though. In this case the economists enter an unknown field and more or less openly reveals their view of the world. Consequently, they lose their special protective shield in the form of economic theories, and subjects their (scientific) authority to potential criticism. If they question the indications of economic theory, accepting the superiority of other factors, then the acceptance of their claims depends to some

extent on their convincing power and charisma. Still, to a great degree it relies on the fact whether the final recommendations are based on criteria which are in accordance with the values accepted at a given time and place by most members of the society. Stigler rightly noticed that more often than not 'we preach what society wishes to hear' (Stigler 1982, 13).

Most economists avoid such openness, even when the conclusions drawn from economic debates are the basis of recommendations that are in line with the perspective dominant at a given time and place of an ethical doctrine. First of all, in such situations opponents of the rules of the doctrine in question may contest the reliability and 'scientificity' of the theory. Secondly, when it comes to subordinating economic reasons to ethical values very often one may be accused of moralizing. Nonetheless, in the reception of the public, in the eyes of non-economists, the primary goal why economists expand their knowledge of economic life is, or at least should be, to present solutions of real economic problems and not to provide ethical recommendations.³ It may be even treated as a sort of paradox, as on the one hand we do not expect moralizing on the part of economists, and it is even viewed as a undesirable phenomenon, but on the other hand, economists are often criticized for their lack of sensitivity to the so-called social issues.

Despite the above-presented difficulties some economists play the role of preachers, though – as it was previously stated – they usually use the statements of the first type, sometimes the second one, and they become the preachers of the third type relatively rarely.⁴ It signifies that in their deliberation and utterances they generally avoid ethical aspects. The reason? Some of the factors contributing to this kind of attitude have already been presented, however, the question undoubtedly needs to be considered from a wider perspective.

Economists and ethics

As a starting point I once again refer to the arguments of Stigler. He began the first of the mentioned lectures by saying '[e]conomists seldom address ethical questions as they impinge on economic theory or economic behaviour. They (and I) find this subject complex and elusive in comparison with the relative precision and objectivity of economic analysis' (Stigler 1982, 3).

³ It does not mean, however, that this point of view is shared by economists themselves. It does not indicate that the main motive for the research into economy is the need to render an improvement in moral standards of societies. It refers to the fact that for many economists the primary goal of conducting economics is first of all the very act of conducting it, the acquisition of knowledge and not the practical application (see: Mayer 1992; Mankiw 2006).

⁴ Obviously some economists may – depending on the situation – be preachers of various types.

The cited observation is surely worth noting, especially as it is, in a way, confession-like in nature. More importantly, it seems that it is somehow accurate, especially if we look at the whole problem from the perspective of tendencies that have laid down the trends in mainstream economics in recent decades. For over half a century it has been heading towards formalization and mathematization to such a degree that for some time now it has rather been more of applied mathematics than one of the branches of social sciences (see Blaug 2003; Hayek 1948a, 34–35). These tendencies may be treated as a longing for accuracy, objectiveness and precision, as indicated by Stigler. In such an approach taking ethical issues into consideration is obviously extremely difficult.

On the other hand, however, it is hard to settle for the explanation that the key reason on the part of economists towards excluding ethical aspects is only the complexity of these issues. The implied claim that the representatives of the profession are unwilling to deal with complicated problems is by all means unjust.

An explanation much closer to the core of the matter may be found in the reflections of Henry Sidgwick and Alfred Marshall. In the texts of both authors there is repeatedly presented a thought that economists avoid addressing the ethical dimension of analysing problems since with the acquisition by economics of the status of an independent scientific discipline they lost the authority to present opinions on this type of issues.⁵ Until the separation of economics from philosophical sciences, a researcher could unobstructedly combine comments on the subject of various aspects of social life (which a lot of them did). Being an economist did not exclude being a philosopher or ethicist having an opportunity to express their ideas on various aspects of the analysed processes and phenomena.⁶ The issue earned a completely different significance together with the intensification of efforts to make economics an independent science. Its separation from philosophical disciplines excluded the basis for economists to talk about the ethical dimension of economic issues. The voice of an economist concerning, broadly speaking, non-economic issues (ethical ones in particular) are treated as his/her non-scientific, personal beliefs. It may be said that this is the price economists have to pay for practicing an independent scientific discipline.

⁵ With the exclusion of their own personal opinions. It needs to be added that for Marshall such a state of affairs (that is the avoidance of this kind of statements) was understood and desired. Talking the economists out of entering the ethical ground he warned that 'on these matters the economist has no special means of information', he does not possess any particular legitimization to indicate what is good and what is bad, virtuous or sinful (Marshall [1920] 1947, 4).

⁶ Schumpeter (1954, 540–541) even claimed that economists had been convinced for a long time that their postulates on the subject of economic policy were a consequence of the analyses as scientific as constructions and models which were the essence of economic theories describing economic reality, although the first ones were based on conclusions drawn from other sciences (not only economics).

Sidgwick and Marshall formulated their opinions at the end of the 19th century but the awareness of some type of constraints was coming to life in the first half of the century. Its most complete manifestation was visible in the works by one of the British classical economists, William N. Senior. This economist and methodologist distinguished two approaches to economics: 1) treating and practicing it as *a science*, through which he implied gaining knowledge about reality, learning about and researching existing facts in the context of them being true and false and 2) practicing *an art of political economy*, which consisted in gathering means allowing an influence on future facts to be gained, so, in other words, it would lead to the formulation of practical solutions of economic problems assessed from the perspective of the desired objective.⁷ Practising *the art of political economy* called for natural abilities to make use of the knowledge acquired through the development of the corresponding *science*, but Senior emphasized that it is necessary to make a competent use of information to a great extent going beyond what could be provided by any individual scientific discipline. He claimed thereby that practicing *an art of political economy* greatly exceeded the application of simple conclusions drawn solely from economic theories (Senior 1852, 18–21). On account of that he admitted that although these conclusions may be true, they ‘do not authorize him [the political economist] in adding a single syllable of advice’ (Senior [1836] 1965, 3).

Due to the works and separation conducted by Senior, economists started to pay more attention to methodological issues, gaining greater awareness of this kind of problems. It did not become a restraint, however, preventing them from producing opinions on the subject of current economic problems. And even Senior found it difficult to name such researchers that dealt only with practicing *a science*, and creation of theories.⁸ Tentatively he claimed, though, that the first of the singled out methods was characteristic of British economists, and the other was typical of American and continental economists, but he eventually admitted that the British who in fact generally had a tendency to treat economics as a *science*, as a matter of fact also practiced it as *an art* (Senior 1852, 45–46).

The indication by Senior of the necessity to distinguish between knowledge about economy and economic policy may be treated as evidence of the maturity of the scientific discipline. As regards economics it is puzzling that one of the key incentives to spur reflections on the subject of economic aspects was practical problems and ethical issues. It was considered in what way one can manage a household, what actions and decisions a ruler should undertake in order to

⁷ ‘An art’, Senior wrote (1852, 18–19), is ‘a statement of the means by which future facts may be caused or influenced, or, in other words, future events brought about.’ The key task of art is to gain an impact on the course of real economic processes: ‘it presupposes that some object is to be attained and points out the easiest, the safest, or the most effectual conduct to that purpose’.

⁸ In view of the fact that English political economics of the first half of the 19th century is often perceived as a science closely connected with English politics, Senior’s difficulties are thoroughly understandable.

make his state stronger than other countries, what level of prices is right and fair, and also – what became one of the vital economic problems in the Middle Ages – whether the desire to accumulate wealth may be an obstacle on the way to eternal salvation. The recognition of rules and relations created between institutions of economic life was a consequence of the search for answers to these questions. What needs to be emphasized is that the answers were to have a reflection in formulating solutions to these problems in economic policy and everyday life. General rules and norms were sought in order to present practical conclusions. This approach was characteristic of mercantilists, but also of William Petty, Pierre Boisguillebert and physiocrats or, as it seems, all the other preclassical economists. Separation of economics did not change much in this respect. British political economics of the first half of the 19th century was closely connected with politics, and as it was rightly noticed by Goodwin (2008, 609), it was difficult to treat classical economists as ‘ivory-tower scholars’. On the contrary, on the whole they were actively involved in economic and political life (see Viner 1955, 224). Many of them ran their own businesses (Jean Babtiste Say, David Ricardo) or were employed in companies (Thomas Robert Malthus, James Mill, John Stuart Mill), held public positions (David Hume, Adam Smith), sat in parliament (Ricardo, Say, Robert Torrens, J.S. Mill) or played the role of government experts (Senior). Classical economists did not avoid supporting openly a certain type of policy. In the case of some of them one may get the impression that similar to physiocrats they had a certain feeling of a mission – an internal conviction about the necessity to promote solutions that for them seemed right.

In this case, are we allowed to claim that economic theories developed by classical economists were of an instrumental character? Did Ricardo, who was actively involved in the movement for the abolishment of Corn Laws, act in this way because of the conclusions drawn from his own theory of foreign trade, or maybe he developed a theory that was to be a support of his actions in the political arena?⁹ Were the efforts supposedly undertaken in order to clarify a particular phenomenon, to give the answer to the question ‘what is?’, made because of instrumental motives? And even if in some cases the answer was ‘yes’, did that very fact lead to the creation of theoretical concepts which are false, imperfect or unreliable? Such questions are incredibly difficult, even more so if we realize that all theories are as a matter of fact more or less simplified model formulations of certain slices of reality. Some elements or factors are ignored regardless of the researcher’s intentions. The problem may be boiled down to whether these

⁹ The variation of the other case may be the possibility that the fundamental incentive to create a theory being a support for the postulates of the liberalisation of foreign trade was the drive to care about one’s own profit. Obviously, we cannot verify the authenticity of this eventuality. It needs to be added that Ricardo invested some part of his estate in land, which means that when advocating the restoration of the free trade of crops he acted against his own interests.

excluded elements are disregarded because the researcher considers them to be not significant enough or whether because their inclusion would lead to interpretations conflicting with the ones that he or she would like to receive. Manipulations of simplified assumptions are naturally not worth recommending, but one cannot exclude that a model created in this way will explain the reality well (the disregarded factors will in fact be of little or no significance). Another matter is whether and to what extent the creation of theoretical concepts may bring us closer to the acquaintance with some objective truth about reality.

Economist as technocrat or dentist

The thought of Senior that it is necessary to distinguish between *science* and *art* became an inspiration for the methodological reflection for a number of economists. Senior's standpoint was developed in, among others, the works of John Elliot Cairnes (1873, 1875), John Neville Keynes (1891) as well as Lionel Robbins (1932). It seems that the mentioned researchers, with the exception of Keynes, presented even more radical approaches to the subject. Cairnes argued (1873, 255–256) that political economics 'has nothing to do with *laissez-faire* any more than with communism', and even that '[i]t pronounces no judgment on the worthiness or desirableness of the ends aimed at in such systems'. Robbins presented statements in a similar spirit in his well-known *Essay on the Nature and Significance of Economic Science* ([1932] 1946, ch. VI), which for the modern mainstream economics had a much greater significance than the considerations by Senior.¹⁰ It needs to be emphasized that with such a standpoint aims and values are treated as categories completely beyond economic sciences, unimportant and rightly disregarded in the field of theories of economics.¹¹

¹⁰ However, at the first glance the Senior's division seems to be echoed by Mankiw (2006) who pointed out two attitudes typical for contemporary macroeconomics: (1) macroeconomists-scientists and (2) macroeconomists-engineers. Actually, the first group is quite close to Senior's proponents of economics as a *science* with the aim to 'understand how the world works' and being 'more interested in developing analytic tools and establishing theoretical principles' (*ibid.*, 29–30). While in the case of the second attitude its similarity to the Senior's 'economics-as-an-art' approach is debatable. Mankiw's 'engineers' are 'problem solvers', but he never mentions the necessity to use by them the contributions provided by other scientific disciplines. Perhaps the difference between those two visions might be boiled down to the difference between artists and engineers.

¹¹ It may be add that Marshall was not so dogmatic, claiming that 'economics avoids as far as possible the discussion of those exigencies of party organization, and those diplomacies of home and foreign politics of which the statesman is bound to take account in deciding what measures that he can propose will bring him nearest to the end that he desires to secure for his country' ([1920] 1947, 43, emphasis added). The highlighted fragment proves once more that Marshall had a deep understanding of the specificity of the problems emerging on the verge of economic theory and economic practice.

Consistent maintenance of such an approach leads to the conclusion that the role of economists as advisers is rather limited.¹² What it indicates is that an economist equipped with a theory that reflects the complexity of economic life, provides a reliable and objective assessment of what the actual situation allows for and then estimates what aims indicated by the decision-maker in particular circumstances are possible to achieve. Apart from that, one evaluates the measures (in terms of costs and benefits) it is possible to apply in order to realize them. The economist does not assess either the aims or the means, employing a neutral attitude, not revealing private views or preferences. It may be assumed that his or her position is reduced to the role of a technocrat (see also: Blaug 1992, ch. 5). It seems that a similar role was evoked by John Maynard Keynes (1930, 373), hoping that in some time economists will do their job with the modesty and the level of competence equal to that achieved by dentists.

Although such a perception of the role of economists-advisers is rather narrow, the acceptance of this approach seems *prima facie* to be a solution to the problems emerging on the margins of the theory of economics and economic practice. It turns out, however, that even with such limited possibilities of direct reference to the theory of economics there are still a number of issues that require a solution.

First of all this type of vision is based on the assumption that naming the goals by the politician/decision maker and presenting the means for their realization (which the economist may be responsible for) may be separated. However, economists-advisers are expected to do so much more than just identify what is possible and what is not – which was noted by, among others, Blaug (1992), Robert Nelson (2001), or recently Tomáš Sedláček (2011). Economists are asked to determine which solutions are better and which are worse. As accurately stated by Blaug (1992, 129–130): ‘[u]nfortunately, economic advice is typically sought, not just to elucidate the possibility function, but also the preference function. The decision maker seeks advice on both ends and means. (...) In other words, decision makers do not try to get what they want; rather they learn to want by appraising what they get’.

Additionally it is presumed that an economist-advisor is in possession of a model that is a good representation of reality and is able to accurately assess to what extent the discrepancy between reality and the very model may cause consequences for the recommendations based on the theory. Moreover, it should be born in mind that economist-advisors, like the rest of us, are susceptible to a bunch of cognitive biases. The most important seems to be anchoring, the confirmation bias, the hindsight bias and, as Angner (2006) demonstrated, overconfidence, which is especially dangerous in the case of advice giving. Here

¹² Especially when juxtaposed with the role they played at the dawn of economics and in the 19th century.

a bitter though accurate remark by Frank H. Knight emerges, which he presented on the subject of the role of economists at the American Economic Association forum, claiming that 'there is always a principle, plausible and even sound within limits, to justify any possible course of action and, of course, the opposite one'. And if so, it is not surprising that 'any politician can always find an "economist" to endorse any position or policy he sees fit to advocate, and perhaps this is the proper function of our "science" in a democracy' (Knight 1951, 5–6). Initially one may state that in such cases there is no place for reliability and impartiality on the part of an economist-adviser. However, the problem here is more complex, since besides the question of the advisors honesty one have to acknowledge some mistakes made unconsciously, stemming from the way our mind works.

On top of that there is the question to what degree theoretical knowledge about economic life may even be the basis for suggesting methods of solving real problems (naming the measures, not to mention the goals). One of the debatable questions is the already mentioned issue of the significance of factors which are not included in the model used by the adviser. What is more, changes taking place in the period between formulating or providing advice and the time when it is put into practice may be to blame for the failure of meeting the assumed and achieved aims. Even if one assumes that an economist is in possession of the perfect representation of reality comprising the whole social life, he or she is not able to predict in advance what the situation will look like the moment the proposed advice is put into practice. And it indicates that in the new situation new actions might be more appropriate.

Moreover, all the recommendations going beyond the simple indication as to which of the aims named by the decision maker are possible to be realized in given circumstances and which are not, would call for a method that would allow for the assessment of the total costs and benefits of all the ways of achieving these goals. One may try to evaluate these categories simply in money, but a great number of values that may be treated as costs or profits are impossible to express with the use of such an index. The persistent drive to assign a great many economic categories to their numerical measures (even if only indirectly) gives rise to a twofold danger: (1) disregard or depreciation of the significance of factors that are inexpressible in numerical terms and (2) the creation of a false impression that there is a possibility of a precise indication and forecast of the values of categories excluded in econometric models.¹³ It turns out then that a little more in-depth analysis of the role of an economist-adviser emerging from

¹³ The issue of excessive trust in our knowledge about the reality, especially the limitation of knowledge of theoreticians of economics about economic life and the consequences of this for economists who play the role of advisers was perfectly portrayed in the lecture by Friedrich A. von Hayek (1974).

the works by Senior-Cairnes-Robbins gives rise to other questions and problems rather than providing a solution to the dilemmas arising on the margin of the economic theory and the attempt to put it into practice.

Conclusions

A key conclusion drawn from the presented considerations boils down to the statement that the reservation of economists towards dealing with issues of an ethical nature explicitly seems to be rooted in the fact that the independence of economics as a science undermined their competences allowing them to solve such issues. The formation of this attitude was also triggered by the acceptance of an ideal of practising economics as a positive science, which in turn fostered economists' fear to voice their opinions on the subject of the ethical dimension of economic issues. Such an open declaration could put them at risk of moralizing and non-scientificity.

The provided perspective sheds some light on the phenomenon present in economics for over half a century of the so-called 'economic', or as Uskali Mäki (2002; 2009a) rightly pointed out 'economics imperialism', which is to say the pursuit to expand the catalogue of tasks that go beyond the traditionally understood scope of economic sciences and which economists are trying to analyse with the use of their research tools (see also Stigler 1984, Hodgson 1994; Lazear 2000; Backhouse, Madema 2009). This growing tendency may be treated as an expression of the endeavours to lay the foundations of a 'general (economic) theory of social life' or simply the 'economic theory of everything' in order to regain the scientific basis allowing economists to voice opinions on the subject of other non-economic aspects of the analysed problems. Such 'general theory...', if it were constructed, would not allow for the formulation of objective and irrefutable advice referring to the solution of economic problems, but at least it would give economists an opportunity to relatively safely present opinions about many more issues and problems.

Resuming the assessment of attitudes adopted by economists, it needs to be emphasized that regardless of the above-mentioned inhibitions, a great many of the representatives of the profession to a greater or lesser degree get engaged in advising. If one may come to terms with the exclusion of ethical aspects by theorists of economics, on the other hand, complete rejection of ethical values by economists-advisers (both technocrats and preachers) may lead to negative consequences. Whether it is possible to create a positive economic theory is more or less disputable, but undoubtedly it is impossible to formulate independent recommendations detached from the values considering current problems.¹⁴ Economists playing the role of advisers may at most pass over these aspects in silence.

¹⁴ The confirmation of that is the fiasco of the so-called new welfare economics.

Re-reading of Thorstein Veblen's *The Theory of the Leisure Class* in the Third Millennium Some Remarks on Conspicuous Leisure and Consumption

In the 19th century *fin de siècle* when Thorstein Veblen published his greatest work *The Theory of the Leisure Class* (1899) the concern about the turn of the century was tangibly felt (it is especially visible in literature, painting and music). The world of science did not react that intensely to the oncoming century and Veblen was here rather an exception. A century later, the great activity of influential intellectuals was also visible. At the end of the second millennium visions full of fear of the advancing globalization and the new problems of societies of the most developed countries were presented by, among others, Alvin and Heidi Toffler (1993), Jeremy Rifkin (1995), Samuel Huntington (1996) or Benjamin Barber (1996).¹ Also, there emerged voices, in charge of which was Francis Fukuyama – the author of *The End of History?* – saying that modern economic liberalism is paramount and the best form of social relations (Fukuyama 1989).

Among those spectacular intellectual manifestos there were no works, which in the Veblen-like style, thanks to in-depth observations, would give a satirical picture of the modern social relations, at least in the style of Julio Cortazar in *Studies on consumption society*. The Argentinean writer referred to the subject of consumerism in the following way:

As progress has no boundaries, in Spain they sell packets containing thirty-two boxes of matches, each of which represents a different chess figure. Suddenly, some other bright spark produced a chess set whose thirty-two figures can be used as coffee cups. Almost instantly the "Dos Mundos" department store manufactured coffee cups that may work as

¹ It refers to the work: *War and Anti-War* (1993) by the Tofflers; *The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era* (1995) by Rifkin; *The Clash of Civilizations. Remaking of World Order* (1996) by Huntington and *Jihad vs. McWorld* (1996) by Barber.

stiff bras for ladies with a rather sagging bosom, and alongside them Yves St. Laurent came up with a bra in which one may serve soft-boiled eggs, in an extremely suggestive way.² (Cortazar 1962, 42)

Also, in the genial, now classic prose by Aldous Huxley one may find criticism against consumption society when one of the characters of *Brave New World* says '(...) [y]ou can't consume much if you sit still and read books' (Huxley 2002, 35).

Alongside finding intriguing quotes in literary visions, it is worth having a look at the timeless work by Veblen. It turns out then that after over a century since the publication of *The Theory of the Leisure Class* his concept is still incredibly fresh and the sharp criticism withstands the test of time in many respects. The controversial thought of an institutionalist gave rise to a new look on the social sciences, in particular on economics. It was a starting point for the review of the previously existing doctrines. The form of the message was also significant, as Veblen was famous for being ironic and even destructive, rarely, according to John Kenneth Galbraith (1987, 177), resorting to presenting practical solutions.

The chapter aims to present the thought of Veblen, first of all in this part, in which he criticises conspicuous leisure and conspicuous consumption. Veblen's description was contrasted with the behaviours of modern societies especially in countries undergoing a transformation of their political and economic systems, for which the phenomenon of consumerism became something new after the break from communism.

Veblen's concept in a nutshell

In the socio-economic system by Veblen the notion of institution plays a key part. The concept is understood as the customs, methods of operation or thinking according to which a society regulates its living processes. As a result of social progress, the institutions undergo changes that may be divided into useful and useless ones. The useful institutions are connected with the world of industry,

² In the Spanish original: 'Como el progreso no conoce límites, en España se venden paquetes que contienen treinta y dos cajas de fósforos (léase cerillas) cada una de las cuales reproduce vistosamente una pieza de un juego completo de ajedrez. Velozmente un señor astuto ha lanzado a la venta un juego de ajedrez cuyas treinta y dos piezas pueden servir como tazas de café; casi de inmediato el Bazar Dos Mundos ha producido tazas de café que permiten a las señoras más bien blandengues una gran variedad de corpiños lo suficientemente rígidos, tras de lo cual Yves St. Laurent acaba de suscitar un corpiño que permite servir dos huevos pasados por agua de una manera sumamente sugestiva. Lástima que hasta ahora nadie ha encontrado una aplicación diferente a los huevos pasados por agua, cosa que desalienta a los que los comen entre grandes suspiros; así se cortan ciertas cadenas de la felicidad que se quedan solamente en cadenas y bien catas dicho sea de paso.'

in which the working class, inspired by the instinct of workmanship, realises the production process. The useless institutions are represented by the leisure class for which the key motive in the world is profit, and the primary aim is conspicuous consumption. Both of the worlds have developed relations based on the private property of production.

According to Veblen, in the private property of production, the aim of man is to gain and accumulate goods, which in the end leads to the diversification of wealth. The natural purpose of the actions is relative material success which is measured in comparison to the success of others (Veblen [1899] 1918, *Introductory*). The decisive significance in the accumulation of wealth is the motive of rivalry. Veblen was an incredibly keen observer, as it was over a hundred years ago that he noticed features of consumerism in capitalist societies. *I buy, therefore I am; to buy, or not to buy, that is the question or good life is the goods life* are statements which, in a simplified way, describe the behaviour of American society in his contemporary times and which today may be applied to all societies benefiting from globalization. Apart from the rise in the number of participants in the consumption system, there is a greater and greater choice of products for potential consumers.

Consumerism has started to gain in strength over the last three decades as it spread to most societies and all continents. In East-Central Europe it emerged naturally as a consequence of system transformations, and in Southeast Asia (mainly in China) it was the result of many economic reforms, while in Latin America it became apparent the moment the middle class developed after the fall of military regimes. Veblen became a visionary of the spreading of consumerism. He claimed that 19th century urbanization, and the developments in transport and communication, would let people observe each other and copy patterns from the richer countries, states of greater reputation that is to say those with *financial prowess* (Ramstad 1998, 12). He predicted that institutionalized societies would collectively look for ways to increase consumption inasmuch as it is allowed by production abilities. It needs to be emphasized that Veblen claimed so, even before the era of mass production, the symbol of which in the United States became the Ford factories. The greater spread of consumerism began in the third millennium in consequence of the Internet revolution which, using the language of Veblen, fostered 'emulation and predation'.

To what extent is Veblen against the widely understood consumption? Well, he is not an adversary of consumption as such, and what is derisively commented on refers only to conspicuous consumption. In order to understand his attitude one has to have a look at the Veblen concept of the leisure class and later try to identify the group in modern societies. The author of institutionalism says that lower classes do not avoid work. It is a 'recognized and accepted mode of life' (Veblen [1899] 1918, ch. III). Thanks to that, having a job makes one proud, which increases one's prestige. It ought to lead to an increase in industry and savings.

These features are also familiar to the richer classes, but the wealth rivalry results in these features gradually diminishing. As tradition has it, still based on predatory culture, work is associated with weakness and subordination, and with time it becomes something unworthy of man who is fighting fit. Work then cannot be the condition of inner satisfaction and peace. Respect among the leisure class is granted to people with a suitable prestige and exempted from 'bungling work' (*ibid.*). That is why the upper classes reject simple types of work, treated in their environment as dirty and unworthy.

Evolution of the leisure class

At a time of high unemployment in the modern world the division of 'good' and 'better' jobs might well have been disposed of. Do we not, however, still harbour the inborn or acquired conviction that our profession is unique? It needs to be remembered that as regards the countries of East-Central Europe, as a result of the political-economic transformation, there was a change in the evaluation of the prestige of many professions. The communist authorities usually valued physical work, while jobs requiring the use of intellect were disregarded, and those doing the jobs were more often than not persecuted, especially if they took the liberty to criticize the authorities. In the new millennium in the countries of former eastern bloc the respect for the previously favoured jobs such as a miner, steelmaker or labourer is diminishing. The jobs in question have not gained in prestige over the last quarter-century and they were not appreciated in real socialism either. Nevertheless, are the appeals to particularly respect doctors or teachers not an indication of treating them as unique professions? The jobs in the countries which underwent transformation were not appreciated in terms of finances either, which makes the references to Veblen's vision even more complicated. The American institutionalist recognized a visible correlation between a 'good job', 'high salary' and 'increase of prestige'.

In the criticism of richer classes, Veblen focused on these idlers who possess stacks of free time. He wrote (*ibid.*):

From the days of the Greek philosophers to the present, a degree of leisure and of exemption from contact with such industrial processes as serve the immediate everyday purposes of human life has ever been recognised by thoughtful men as a prerequisite to a worthy or beautiful, or even a blameless, human life. In itself and in its consequences the life of leisure is beautiful and ennobling in all civilised men's eyes.

We need to think it through whether in today's world it is the same, or presumably it is the workaholics that are appreciated and not the idle do-nothings who take advantage of the inheritance from affluent parents. Mere idleness does not bring esteem, according to Veblen; what is also needed is the high status

which is brought in by the financial position. Today, do we actually perceive people only through affluence, how much money they have in their bank accounts or how many cars are parked in front of their big houses? Even if the financial position plays a significant role, today it is not such a common perception and it is not enough to gain recognition in the eyes of other members of society. For some social groups it is enough to get the status of a celebrity, still it is also possible to gain respect of other people on account of professional achievements and the possibility of further development in certain environments. Success can be then interpreted differently by particular social groups and for its realisation it is not always necessary to have money or undertake a certain kind of job. Happiness may turn out to be a significant, though immeasurable factor. Success is often verified by reaching a certain goal, and the road to success is a value in itself. Only when the success is dwindling, or we fail to make use of our talents, does our position diminish.³

Veblen draws attention to occupations peculiar to the idle class, emphasizing that they are characteristic of different stages of human development. These jobs comprise governing, war craft, sport and religious ceremonies. Even if they may be indirectly 'productive', the motive for people to choose these 'jobs' is not multiplying wealth through productive effort (*ibid.*). According to Veblen, the idleness of politicians, soldiers, sportsmen and priests does not indicate inactivity or relaxation. It is simply unproductive use of time. The evidence of idleness is given by intangible assets and here the author of *The Theory of the Leisure Class* is also eager to enumerate them. These are, *inter alia*, quasi-scientific or quasi-artistic achievements, useless knowledge which is not used to keep or prolong life, the knowledge of dead languages, philosophy, practising music only for one's own pleasure, grooming fashions, keeping useless animals for entertainment (pet dogs, racehorses), indulging in parlour and sports games, and also following all the rituals and etiquette. In the modern world there are, according to Veblen, many more 'idle' activities than a hundred years ago in the American environment described by him.

A separate place in Veblen's description is occupied by women. Their role in society and the family has evidently evolved since the times of predatory culture. In the beginning they were the possessions of men and were treated on a par with slaves. And even at an early stage of development women were appreciated both as an indication of wealth and means to accumulate it. Moreover, the privilege of men was consuming what women prepared. With the progress of culture the role of women has changed, especially the role of wives. In some societies and in some groups/classes they started to be treated as people of blue blood,

³ An interesting approach to the subject was presented by Doug Brown in the article with an intriguing title *Be All You Can Be: Invidious Self-Development and its Social Imperative* (1998, 49–69).

which freed them from common activities. According to Veblen, the housework of a housewife was treated as productive if it contributed to the comfort of the master and other household members. Her other activities may well be treated as idleness or vicarious leisure. By such idleness (vicarious leisure), Veblen understood mainly all housework. 'These duties are fast becoming a species of services performed, not so much for the individual behoof of the head of the household as for the reputability of the household taken as a corporate unit – a group of which the housewife is a member on a footing of ostensible equality' (*ibid.*). When the wife stopped being the possession of the husband and the family started to do away with archaic customs, housework stopped being seen as vicarious leisure. Veblen realised that the disappearance of social inequality simultaneously causes the elimination of it. If a person carries out activities that are unproductive, they indulge in idleness in the name of the whole household (*ibid.*). Referring to Veblen's theory one may discuss the modern society and political status of women. The issue of women's work is debated over and over again even in parliamentary discussions about bills referring to maternity or pension privileges. Veblen's assumption that institutions may change in time allows for an optimistic outlook on the disposing of stereotypical customs and social vestiges of the past. For that reason, in political and economic discussions it is significant to take into consideration the evolution of human conduct and the changeability of politics and institutions (Foster 1998, 129–131; see more: Peterson 1998, 117–128).

Conspicuous consumption in the 21st century

We know what Veblen understood as idleness and who leads an idle life. The very notions, though of a pejorative hue, may well be treated as destructive for a social life. The demonstration of the leisure class was needed for Veblen to criticize conspicuous consumption. It is the showing off of luxury by the leisure class that irritated him most. It manifested itself in the possession of enormous houses, also in the furnishings, clothing, food, and consumption of alcoholic beverages and other drugs. According to the institutionalist, representatives of the leisure class consume above the norms necessary for staying healthy and keeping fit. They devour the best food without limit, drink the most expensive beverages, go in for sophisticated entertainments, and possess articles that improve their well-being and sensual pleasure. The aim of such consumption is not only to satisfy practical needs or seek comfort but also to provide prestige. 'Unproductive consumption of goods is honourable, primarily as a mark of prowess and a perquisite of human dignity; secondarily it becomes substantially honourable to itself, especially the consumption of the more desirable things' (Veblen [1899] 1918, ch. IV). Conspicuous consumption does not refer only to the idle class but it

applies to all social groups. Veblen claims that only in times of deep penury may people do away with the last frippery and the last pretence of decent material position. He wonders to what extent man is capable of bowing to the pressure of biological needs in order to abandon spiritual ones.

According to Veblen, both conspicuous leisure and conspicuous consumption rely on wastefulness. As regards the first, it is a waste of time and energy; when it comes to the latter – a waste of material goods. Both of them lead to one goal – the manifestation of wealth. Its demonstration through these two methods has a different influence on people, depending on the situation, conditions and environment. Together with the greater diversification of society in bigger population centres, conspicuous consumption is more significant than idleness. It is more effective as a way of gaining favourable public opinion.

Since the publication of *The Theory of the Leisure Class* there have been no significant changes in social attitudes as regards wastage. Conspicuous consumption characterises societies dwelling in both cities and the country. However, the bigger the market, the greater the dependence on such consumption patterns seems to be (such attitudes are hard to find in oases in a desert or in scarcely populated isolated villages high up in the mountains). Undoubtedly on account of its influence on public opinion, location plays a significant role (e.g. is it the capital, a place of media activity, with cultural projects etc.). The dependence on the size of the population centre at the level of conspicuous consumption does not always look the same, however. The specificity of culture and religion also need to be taken into consideration. Nevertheless, in the globalization process, especially in the era of the Internet revolution, mutual penetration of certain consumption behaviours comes across as far easier. Naturally, often cultural barriers exist, though breaking them has never been easier than in the era of globalization in the 21st century.

Veblen is sceptical when it comes to changes in societies cultivating conspicuous consumption. He claims that, were it not for the constraint of other contradictory characteristics of human nature, the working classes would not be able to save at all. These beneficiary characteristics are shaped by the principles of human decency. Regardless of their existence, Veblen argues that conspicuous consumption devours all the surplus of goods over the minimum necessary for existence (*ibid.*). In order for the consumption to generate certain benefits for the idlers (increase of prestige) they have to spend all of what they have as a surplus. The consumption of the bare necessities is nothing to be proud of, only in comparison with the beggars – Veblen warns. In order for the consumption to bring honour it has to become wastage. Although this word also adopts a pejorative hue (as idleness does), it cannot by any means be interpreted in obvious terms. Veblen uses the word wastage not in the meaning of uselessness, as according to him all goods contain a molecule of usefulness, though indirectly they also possess an element of wastage. Veblen adds:

In the view of economic theory the expenditure in question is no more and no less legitimate than any other expenditure. It is here called 'waste' because this expenditure does not serve human life or human well-being on the whole, not because it is waste or misdirection of effort or expenditure as viewed from the standpoint of the individual consumer who chooses it (*ibid.*).

Veblen did not restrict rivalry only to the problem of wealth. Some standards may also refer to dimensions of morality, intellect, beauty and physical strength. These issues are closely connected with property competition and they are difficult to separate. The level appointed by rivalry is not constant, it is even infinitely expandable, especially when there is time to get accustomed to the increase of affluence and learn how to spend money appropriate to this level (*ibid.*). Issues connected with the financial criterion of the standard of life and the role of money as an indicator of good taste build up different chapter in Veblen's theory. It is worth analysing the norms defining the level of financial competition. Today they are very diverse, depending on a given culture, the part of the world, the region of the country, particular professional or religious groups. It would be hard to define a given norm even for a small group, unless it is practically hermetic. In the 21st century societies are incredibly mobile, they penetrate one another, so being part of one environment does not exclude activity in another few. In many cases, individual or family standards are created.

Summing up the position of Veblen on the subject of consumption behaviours of the analysed social groups, the factor of rivalry has to be emphasised. Rivalry, based on jaundice and traits of envy, leads to conspicuous consumption in order to be admired by others. Items that we purchase must impress and have to be visible to those with whom we want to compare ourselves. Consumption calls for conspicuous wastage of products. However, it is something 'commendable' to waste expenditure on account of the creation of envy rivalry, which leads to property advantage. The concepts of jaundice and envy are used by Veblen in the technical sense in order to build up a comparison of people leading to 'rating and grading them in respect of relative worth or value – in an aesthetic or moral sense – and so awarding and defining the relative degrees of complacency with which they may legitimately be contemplated by themselves and by others' (*ibid.*, ch. II).

It needs to be emphasized that, according to Veblen, in a quasi-peaceful society – in the next phase of the development of human communities – wealth rivalry played a positive role, since human behaviour was governed mainly by the instinct of parental bent and the instinct of workmanship. It was only in the further years of human development, in the period of the so-called pecuniary culture, that competition resulted in people being judged through the lens of consumption wastage. Societies shunned threats, as next to wastage there was also usefulness, and thanks to the combination of the two factors a balance was kept in the process of consumption (Galbraith 1987, 174–177).

For Veblen conspicuous consumption expresses the willingness to live above average standards and is characteristic of, first of all, the leisure class. It may, however, expand to other groups. With the increase of the financial abilities of the lower classes, the scale of conspicuous consumption is expanding. For that reason TV sets, computers, laptops, mobile phones, tablets and smartphones up to a certain moment are an indispensable element sufficient to practice conspicuous consumption. When they become common, they lose the quality of goods evidencing a better wealth status. In one period of time, purchasing some items may increase our status, while at another time, the possession of a given product does not guarantee belonging to the idea of conspicuous consumption. That is why, in order for the leisure class to maintain its position in the social hierarchy, it is forced to constantly increase its level of consumption. On account of that, the 'wealth standard' also undergoes changes (Olson 1998, 190–191).

Conclusions

After more than one hundred years since the publication of *The Theory of the Leisure Class* the debate about the primary goal that Veblen wanted to achieve through the launching of his book still remains heated. Was it, as suggested by John Kenneth Galbraith and Mark Blaug, in order to call for people to give up paying so much attention to material wealth? Interpreting Veblen's theories, they claimed that he desired more public goods in the place of trivial trifles (today we would probably use the word 'gadgets'). It does not seem to be a call for a technocratic revolution but rather a virulent criticism of consumerism of specific environments in the United States. Veblen is reproached for the fact that he treated this description as a theory and it was, in the opinion of many critics, not enough, even if the description was very suggestive. In the works of the institutionalist there are a great many inaccuracies. According to Blaug (1990, 710), the evidence supporting one of the interpretations of economic behaviours is often accompanied by statements contradictory to the conclusions drawn from these analyses.

The strength of Veblen's views is their up-to-dateness. Many of his observations are accurate in the context of globalization processes occurring in the modern world. Through television and other media, and thanks to superfast communication, it is easier for individuals to meet and compare one another. It is easier to notice conspicuous consumption. Making use of the choice that we have, putting on new clothes, building houses, buying cars or preferring various lifestyles, we cause jaundice. Today each citizen of the world, if they possess the proper technological means (they have become common) may engage in conspicuous consumption. The globalisation of consumer culture comprises the whole world and it inflames greed and behaviour which is full of hate (Brown 1998, 54–55).

Simultaneously, in the 'global village' there is growing envy not only between individuals but also social groups and, what is the most dangerous, between countries and nations. The deepening disparity between the rich and poor countries would not have such social consequences if the people living in impoverished states did not have the chance to see how it is to live in the 'better world'. Citizens of developing countries may follow live the existence of the rich on their TV screens or on the Internet⁴. It must build in them not only frustration and despair but also envy. It may lead to the reinforcement of extreme behaviours on the part of the citizens of poorer countries. On the other hand, according to Veblen, envy may lead to severe competitiveness which in turn may bring positive effects such as fulfilling up-to-now unfulfilled material desires.

Having a look at the behaviour of societies in the third millennium we receive very useful tips from Veblen. He indeed focused on the description of one culture – American, but we find quite many references in his *Theory...* to other societies, so his reflections may well be treated as global. A century later we observe consumption rivalry not only in the frame of one society, but also between various cultures and civilizations. Treating Veblen's views as a metaphor, one may compare the whole culture of the West to the 19th century idle class (Olson 1998, 191). On the threshold of the third millennium the transforming economies have placed themselves somewhere in between the worlds of 'business' and 'industry' but certainly they aspire to get a place in the less and less exclusive group of 'idle countries'.

What are the primary conclusions drawn from Veblen's concept? It seems that the most significant in his output was pointing out that capitalism is not only an economic system, but a structure of connected societies. In contrast to Karl Marx, he doubted whether capitalism could be replaced by another new system. He also proved that economic relations to a great extent depend on psychological and sociological factors, which shows us today what spheres in science may be filled in order to better comprehend people's behaviours and in turn their economic decisions.

⁴ At the turn of the new millennium over three quarters of the world's population had everyday access to satellite television. In 2012 over one quarter of people in the world had access to the Internet (about 2.5 billion).

Alfred Marshall's Puzzles (and How to Solve Them)

Marshall's approach to economics hides a kind of paradox. On one hand, the 'father' of neoclassical economics, who usually shunned explicit statements on the methodological issues, in a straightforward way favoured conducting economics as a positive science. His adoption of such an attitude is understandable as it was, in a way, a natural consequence of the development of the 19th century methodological reflections formulated by John Stuart Mill (1844; 1974), William Nassau Senior (1836, 1852), John Elliot Cairnes (1875) and John Neville Keynes (1891).¹ It may be treated as *signum temporis* too, as the last quarter of that century was the time of professionalisation of economics, recognizing it is a science focused on researching facts, free from subjective evaluation, providing instead objective knowledge about certain aspects of social reality. The ideal of economics as a positive science facilitated it in establishing its position as an independent science and academic discipline.² The fact that Marshall was such a consistent and determined advocate of conducting economics as a positive science is, however, also puzzling for at least two reasons. First of all, even a quick overview of his works allows to notice that, despite his calls for avoiding value judgments in theoretical considerations, his texts are full to the brim with moral teachings. Secondly, while in referring to the problems of economic policy, as he did in various memoranda, petitions or as a member of government committees, he referred to the theory of economics, he also frequently took into account ethical aspects, often giving pre-eminence to ethical arguments over conclusions stemming from research grounded only on the theory of economics. As an example of such an approach may be seen his questioning of his own the theoretically-conceived idea of reform of the fiscal system, i.e. taxing those industries whose production

¹ It needs to be emphasised that in relation to certain methodological issues Marshall's views to a greater or lesser degree differed from this tradition. As an example there is his rejection of Mill's concept of *homo oeconomicus* (see also Dzionek-Kozłowska 2007, 82–89).

² Marshall was deeply engaged in these actions (Groenewegen [1995] 1998, 329–342, 458–468, 531–569).

falls under the law of diminishing returns and handing them down to those industries that generate increasing returns. In his opinion, the potential benefits resulting from introducing this solution were too difficult to estimate, especially when juxtaposed with the danger of the emergence of a situation fostering corruption, embezzlement or the squandering of resources which could result from transferring some of the funds and energy of the entrepreneurs away from managing their own companies to attempts to influence those persons who would decide on the allocation of the subsidies (Marshall [1920] 1947, 472–473, 475).³ From similar reasons he rejected the departures from the policy of free trade, despite the fact the exceptions were theoretically justified even on the ground of his own theoretical findings. On the contrary, he was trying to demonstrate that implementation to the British customs system any elements of protectionism would have led to growing significance of the decisions made by politicians. And such a course of events would have result in the tendency to engage more and more private sector's resources to achieve or to keep the state protection of certain branches of the economy. While he was convinced that in the long run such a turn in British policy would have done more harm than good (Marshall 1926a).⁴

This account raises two questions: (1) Why did Marshall, who was trying to spread the idea of economics as a positive science, not notice the inappropriateness of including in his own scientific texts statements such as 'everyone should seek to increase the beauty of things in his possession rather than their number or their magnificence', or '[t]he most imperative duty of this generation is to provide for the young such opportunities as will both develop their higher nature, and make them efficient producers' (Marshall [1920] 1947); and (2) Why did he, while taking care of the prestige of economics and making efforts to prove its 'scientificity', at the same time depreciate in some fashion its role in solving practical economic problems, eventually giving predominance to ethical issues?

Objectivity and rhetorical devices

At the start one need once again to look at an idea which Marshall, over the course of his 50-year-long scientific career, invariably supported – the idea that economists should strive to explain the facts and to analyse the economic reality as objectively as possible, shying away from presenting economic laws as tenets

³ With the use of new economic nomenclature it may be said that Marshall was afraid of creating an opportunity for *rent seeking*.

⁴ In *Memorandum on Fiscal Policy of International Trade* (1926a, 394) he even ventured to say that '[t]he simplicity and naturalness of Free Trade – that is, the absence of any device – may continue to outweigh the series of different small gains which could be obtained by any manipulation of tariffs, however scientific and astute'.

of economic policy, and all the more as moral imperatives (Marshall 1874; 1932, 675–676; [1920] 1947, v–vi; 1961, 157–158)⁵. Marshall indeed was aware that every statement referring to facts ‘is liable to be tainted by unconscious bias’ (1932, 675) which could lead to a significant crisis of belief in the possibility of achieving full scientific objectivity, and he emphasised on numerous occasions that maximal neutrality is indispensable for reserving the status of science for economics. Objectivity was an ideal which every economist, or in the broader sense every person dealing with scientific activity, should go to great lengths to achieve.

Significantly, very particular evidence of the great weight which he attached to realization of this ideal can be found in his attempts to eliminate from his own texts emotive words or phrases that might suggest to the receiver which ethical doctrine they should support. For instance, when discussing, in *Principles of Economics*, the most important tendencies taking place in the then-contemporary economy he refuted the words such as competition and competitive, claiming that they ‘have gathered evil savour, and have come to imply a certain selfishness and indifference to the wellbeing of others’. In that economic treatise he argued that ‘we need a term that does not imply any moral qualities, whether good or evil’ (Marshall [1920] 1947, 6). The ‘prey’ of achieving neutrality were eventually the key categories for the marginalist theory of consumer behaviour. Starting with the third edition of his *Principles...* he almost totally rejected the expressions *pain* and *pleasure*, claiming that leaving them in may suggest that the theory is based on the utilitarian doctrine. On account of this convergence, he looked for words that could be used as substitutes for the term *utility*, the foundation for utilitarianism. This search is embodied in an extract (included only in the fourth edition of *Principles...*) in which he wondered what substitutes one might use in place of this word. In this instance he realized in the end that the suggestions emerging in the contemporary literature such as *agreeability*, *enjoyability* or *desirability* were also were not free from the same inaccuracies, and so he concluded that the lesser of two evils was to keep the initial, although imperfect, expression (Marshall 1961, 236). The high point of this questioning attitude was his claim that the very name of the discipline *political economy* was equally improper. It is not hard to guess that in this case the problem he had was with the word *political*. The adjective inherently ascribed a connection between economics and politics. Marshall was also convinced that in the expression *political economy* there is a suggestion that economics is to some extent dependent on politics or even more – subordinate to it. If so, one cannot then talk about its

⁵ We need to add that Marshall, who on numerous occasions expressed his firm approval of Smith’s concepts, saw a great flaw in the economist’s thought. What he disagreed with was the fact that the father of economics ‘did not always distinguish perfectly between the casual laws of Nature in the indicative mood and her ethical laws in the imperative’ (Marshall 1925d, 157).

independence or conducting it as a positive science. In view of such associations Marshall declared that the name political economy was inaccurate and he made a very radical move – he rejected the commonly used term and started using the expression economics.⁶ The fact that in a relatively short period of time Marshall's suggestion came into general use and almost completely did away with the previous expression demonstrates that the role Marshall played in the very development of 'economics' was enormous.⁷

The meaning of life, higher values and how to cultivate them

One of the fundamental assumptions of Marshall's socio-economic system seems to be the key to solving his puzzles: i.e. his conviction that the primary goal of human existence is the drive to constantly improve one's own character and the relations between people – 'the development of a man's higher nature', 'the exercise of many of the higher social activities', 'to build up a strong and righteous character', to develop 'higher aspirations' and 'higher faculties' (Marshall 1897, 310; 1907, 9, 12–13, 18; [1923] 1929, v; 1925d, 172–173; 1926a, 396, 404; 1932, 661, 664–665; [1920] 1947, 2–4, 17, 47–48, 136, 265, 530, 680, 690, 694, 720, 724, 740–741, 743, 748, 751). Unfortunately, his use of these invoked statements was rarely accompanied by their further explanation, although it is hard not to agree with the opinion of Talcott Parsons (1931, 138, footnote) that Marshall himself probably 'knew very well what he meant by "higher"'. The reading of his publications, texts of his official presentations and his correspondence allows to point out some characteristics or virtues that usually appeared in this context, the shaping of which was supposed to attain (or even be the essence of) those higher values.

It seems that the most significant dimension, or sphere of human development, was for Marshall the creation of inner discipline, self-mastery, the ability to overcome adversity, responsibility, independence, moderation and – es-

⁶ To be precise, it has to be added that Marshall put forward the three following expressions: *the science of economics*, *social economics* or *economics*. He himself used the easiest, one-word term (the third one) most often (Marshall and Paley-Marshall 1879, 2; Marshall [1920] 1947, 43; 1961, 159). What needs to be stressed is that Marshall was not the author of the expression. William Stanley Jevons stated that the phrase economics used as a label for this science emerged already in the first half of the 19th century in the work of one of the forerunners of mathematical economics Henry Dunning MacLead (Jevons 1931, XIV–XV, XXVII).

⁷ It seems that in the last decade of the 19th century and in the first years of the next century one may even talk about Marshall's dominance in the British economic environment. In 1887 before the publishing of *Principles of Economics* H.S. Foxwell wrote: '[h]alf the economic chairs in the United Kingdom are occupied by his pupils, and the share taken by them in general economic institution in England is even larger than this' (Foxwell 1887, 92; see also Levitt 1976; Shove 1942).

pecially significant in terms of economics – creativity, entrepreneurship and frugality. With respect to the latter, Marshall criticized becoming richer only for the sake of becoming richer and what Veblen dubbed conspicuous consumption (Veblen [1899] 1918, ch. IV). Marshall found no justification for such behaviours and every time he referred to them, he did so with undisguised aversion.⁸

Favourable environment. Benefits of free market and competition

The above-presented picture is rounded out by Marshall's conviction that among the then-existing or popularised economic systems, the most favourable conditions for improvement of the standard of living was a free market economy, although Marshall by no means claimed that it was an ideal solution. On the contrary, he emphasised or even criticised a number of its weaknesses.⁹ Yet despite this he claimed that an economic system based on competition and the workings of a free market provides incentives that foster the improvement of humankind in what he perceived as the desired direction. Citing the arguments of the fathers of liberalism – John Locke, David Hume and Adam Smith – he argued that freedom of management forces individuals to take responsibility for their own lives, thus fostering independence and self-reliance, which in turn benefits the development of entrepreneurship and creativity. A number of advantages of a free market economy were connected, according to Marshall, with the lack of barriers for the existence of competition (this despite his doubts about the term itself). Firstly, like Smith and other classicists,¹⁰ Marshall was convinced that competition incites self-improvement and is at the same time a source of progress (Marshall 1925b, 290; 1926a, 408–409; Whitaker 1996b, 363). Moreover, he emphasized that competition favours optimal allocation of human capital – it creates a mechanism 'to put the ablest men into the most important posts, the next ablest into the next most important, and, so on', thanks to which the most gifted do the most difficult and the best paid jobs (Marshall 1925b, 282–283; see also [1920]

⁸ In *Principles* he admitted 'it would be a gain if the moral sentiment of the community could induce people to avoid all sorts of display of individual wealth' (Marshall [1920] 1947, 83; see also: Whitaker 1996a, 398–399).

⁹ Therefore, despite what he is usually referred to in Marxist literature (e.g. Blumin 1955, 64; Wyrozembski 1957, LXIII) – it would be hard to call him an apologist of capitalism.

¹⁰ 'And, where the competition is free – Smith wrote in *Wealth of Nations* – the rivalry of competitors, who are all endeavouring to justle one another out of employment, obliges every man to endeavour to execute his work with a certain degree of exactness. (...) Rivalship and emulation render excellency, even in mean professions, an object of ambition, and frequently occasion the very greatest exertions' (Smith 1904, bk V, ch. I, par. 133).

1947, 618). The most precious attribute of a market economy was for him 'turning to account the combative and predatory energy of the present crude nature of man: it has supplied much of the driving force, by which crowded districts in the western world have been endowed with material comforts and intellectual training' (Marshall 1925a, 367).

Clearly, Marshall's conviction about the positive influence on the character of individuals of both competition and an economic system based on free market had been present in economics long before him. Such evaluations began to emerge more and more often together with popularisation of the ideas of the enlightenment, and in the 18th century a number of authors, led by Montesquieu, pointed out the moral benefits connected with the development of trade exchange, arguing that deepening economic inter-relations between members of the society constituted strong stimuli to take care of one's good reputation, credibility, and looking for amicable solutions to conflicts of interest (the so-called *doux-commerce* thesis).¹¹ This view was developed in the essays of David Hume (1987, part II, ch. I, VI) and the works of Adam Smith (1904, bk III, ch. IV) who, apart from naming a number of positive characteristics 'to which naturally forms a merchant' (*ibid.*, ch. IV, par. 3) showed, in a witty way, that the free market mechanism allows for achieving cross-societal benefits even if the motives of the entrepreneurs are by no means noble. The strength of this argumentation was such that this belief may, without much exaggeration, be treated as one of the most deeply-rooted ideas in the development of economic thought, shared even by a number of economists who favoured a greater role of the state in a country's economy.¹²

The evaluation of an economic system from the perspective of its ability to create an environment favourable for the development of certain types of values and moral attitudes may look a bit surprising. However, if we assume that the needs of members of society are to a great extent a derivative of these values which are shaped by the institutions forming the social order, such a perspective seems to be justified. This opinion, expressed *explicite*, may be found in, *inter alia*, the papers by Frank H. Knight, who with his typical firmness stated that social order '(...) must be judged ethically rather by the wants which it generates, the type of character which it forms in its people, than by its efficiency in satisfying wants as they exist at any given time' (1922, 592).

¹¹ Hirschman discusses the growth of this notion in the development of economic thought (1982). See also: Swaney 1993.

¹² J.M. Keynes may serve here as an example, who proving the necessity of economic interventionism, admitted that the competition between entrepreneurs on economic ground is in a way a valve for their inclination for dominance or even tyrannizing others (J.M. Keynes [1936] 2012, ch. 24).

Some drawbacks

Coming back to Marshall it needs to be emphasised that apart from naming the advantages of the system based on competition, he well realised that some aspects of competition at the economic level are by no means favourable, as competition may be fierce and wasteful (Marshall 1925b, 291; Whitaker 1996a, 295)¹³. It seems that Marshall's anxiety escalated with age, since at the end of his life he claimed that competition 'is a monster now grown of overwhelming strength' (Marshall 1925a, 361). Interestingly, he had a particularly unfavourable opinion about the growing competition in marketing, claiming that

a great part of marketing consists of bargaining, of manœuvring to get others to buy at a high price and sell at a low price, to obtain special concessions or to force a trade by offering them. This is, from the social point of view, almost pure waste; (...) It has a great attraction for some minds that are not merely mean; but nevertheless it is the only part of honest trade competition that is entirely devoid of any ennobling or elevating feature. (1925b, 278)

However, his greatest reservation towards the economy based on free market and competition was the fact, in his eyes, that the system does not prevent the emergence of great discrepancies of wealth; on the contrary it would seem to intensify them. Like J.S. Mill a half a century earlier ([1848] 1909, bk. IV, ch. VI), Marshall acknowledged eventually that the existing inequalities in the division of wealth and income were already too great in his times and 'tend in many ways to prevent human faculties from being turned to their best account' (1925b, 282–283).¹⁴ For Marshall, the system of economic freedom was the best solution for shaping characters 'for those who are in fairly good health of mind and body' ([1920] 1947, 714), but he was aware of the fact that in every society there are also those who, left to their own devices, have little chances not only of improving their position and character, but even of surviving. For them, poverty becomes the main cause of 'moral and physical misery'. Such people are not able to develop their 'high mental and moral qualities', as they spend almost all their time gathering the means enabling them to stay alive (*ibid.*). Marshall presented the phenomenon as a classic

¹³ He presented similar views during his lectures about the work by Henry George entitled *Progress and Poverty* (Stigler and Coase 1969, 197).

¹⁴ Initially he did not refer to the subject in a straightforward way, since basing on the classical theory of growth he claimed that modifying the division of national income by the government might significantly weaken the economic growth. His view on this issue started to change at the turn of the 19th and 20th century, which according to Groenewegen happened probably under the influence of British experience with the introduction of inheritance taxes and the later discussion about the so-called People's Budget of the Lloyd George's government (Groenewegen [1995] 1998, 596–597, 644–646; see also: Marshall 1925a, 366; [1920] 1947, 715; Whitaker 1966b, 233).

example of negative feedback, whose mechanism was later perfectly characterised by Gunnar Myrdal (1944) and defined as a cumulative causation or 'vicious circle' problem. Marshall demonstrated that the effects of penury accumulate because 'the poverty of the poor is the chief cause of that weakness and inefficiency which are the cause of their poverty' (1925d, 155).¹⁵ In one of his letters Marshall even dared to voice a very peculiar confession, claiming that 'I have always held that poverty & pain, disease & death are evils of much less importance than they appear, except in so far as they lead to weakness of life & character' (sic!) (Whitaker 1996a, 399).

In view of the above-mentioned, it seems understandable that the most important challenge facing the economic sciences was, according to Marshall, the issue whether it is possible to improve the material situation of the poorest in a way which would not threaten economic freedom and not impair 'the springs of initiative, enterprises and energy' (1925a, 366; see also [1920] 1947, 42). This problem may be referred to as the leitmotiv of his entire output – it already appeared in 1873 in one of his earliest papers entitled *The Future of Working Classes*, wherein he wondered 'whether the amelioration of the working classes has limits beyond which it cannot pass?' (1925c, 102). Moreover, in one of the first pages of his *opus magnum* he asked: 'whether it is really impossible that all should start in the world with a fair chance of leading a cultured life, free from the pains of poverty and the stagnating influences of excessive mechanical toil?' ([1920] 1947, 4). The same questions re-occurred in the drafts which he prepared in the last years of his life working on material for a treatise on economic progress, the role of the government, and the possibilities of social development (see also Groenewegen [1995] 1998, 725–731; Whitaker 1990, 217–218). It also needs to be added that throughout his entire life Marshall deeply believed in 'the possibility of the vast improvement in the condition of the working classes' (Marshall 1925d, 155),¹⁶ and J.M. Keynes (1924, 345; see also Whitaker 1977) even stated that

[h]e had an inclination to undervalue those intellectual parts of the subject which were not 'directly' connected with human well-being or the conditions of the working classes or the like, although 'indirectly' they might be of the utmost importance and to feel that when he was pursuing them he was not occupying himself with the Highest.

¹⁵ Marshall referred to the group composed of people 'who are physically, mentally, or morally incapable of doing a good day's work with which to earn a good day's wage' as *Residuum* ([1920] 1947, 2–4, 714).

¹⁶ What is more, because of lack of such faith he criticised classical economists. During his inauguration lecture presented in 1885 when he took up the Department of Economics at Cambridge University he even declared that it was the most serious mistake they made! (Marshall 1925d, 155).

Marshall appraised his own research in a similar way. In 1893, in front of the Royal Commission on the Aged Poor, he confessed that: 'I think I should perhaps say that I devoted myself for the last twenty-five years to the problem of poverty, and that very little of my work has been devoted to any inquiry which does not bear on that' (1926b, 205).

Is it possible to transform the environment? Marshall on socialism

Such an open declaration on Marshall's part and the noticeable sensitivity in his publications to social issues led some researchers to believe that he was a supporter of socialism, or at least demonstrated strong tendencies towards socialism (McWilliams-Tullberg 1975; Jha 1963, xi). However, his opinions on the socialist doctrine, expressed *explicite*, leave no doubt that he took a critical view of the concepts and postulates of socialists. As regards the issues discussed here, it is interesting to note that a significant element of Marshall's argumentation was comprised of the conviction that the way to improve human living conditions should not begin with the introduction of the changes proposed by socialists, which according to Marshall rejected the sources of the basic incentives motivating people to take care of their own well-being, to work and to plan, not offering anything in return apart from a short-term improvement of the situation of some of them and long-term negative consequences.

Marshall, following Herbert Spencer, perceived society as an organism. Making use of this metaphor, he paid attention to the fact while the social organism may develop, this progress, together with other developmental processes, comes into being only gradually. Only those changes built up by many generations may attain a more lasting character. A necessary condition of all the plans for reforming society is a change of habits, customs and practices of human beings; 'economic institutions are the products of human nature, and cannot change much faster than human nature changes' (Marshall [1923] 1929, 260; see also [1920] 1947, 230, 244, 249). There is no justification for introducing plans to create a better world which would be based on a silent assumption that people are better than they in fact are. Human character may be modified, 'new ideals, new opportunities and new methods of action may, as history shows, alter it very much even in a few generations' (Marshall [1920] 1947, 752); however, on the scale of an entire society these changes happen very slowly. Progress, although speeded up, has to happen gradually and its pace may seem relatively slow, especially when compared to 'the rapid inflow of proposals for the prompt reorganization of society on a new basis' (*ibid.*, 248–249).

The functioning of a society without competition and private property would be possible, according to Marshall, only under the conditions of a moral

reform reaching so deep that '[m]en would think only of their duties; and no one would desire to have a larger share of the comforts and luxuries of life than his neighbours' and '[s]trong producers could easily bear a touch of hardship; so they would wish that their weaker neighbours, while producing less should consume more. Happy in this thought, they would work for the general good with all the energy, the inventiveness, and the eager initiative that belonged to them' (*ibid.*, 9). The starting point to reforming society and the economy would thus be perfecting of the character of individuals. The ethical sphere is crucial here and impossible to ignore.¹⁷ A perfect summary of Marshall's stand on the subject of socialist doctrines is his opinion, as cited by Talcott Parsons (1931, 128), that 'the chief dangers of socialism,' Marshall claimed, 'lie not in its tendency towards a more equal distribution of income for I can see no harm in that, but in the sterilizing influence on those mental activities which have gradually raised the world from barbarism'.

An additional argument against the increasing role of the state was the conviction that, together with the rise of activity of the government and state institutions, bureaucratisation develops, which entails a lack of flexibility, avoiding risk and 'blurring' responsibility. By referring to historical examples and observing phenomena taking place in his times Marshall came to the conclusion that in offices and in state-owned enterprises, the characteristics determinative of economic progress are found in lesser amounts than in private firms. There are practically no new inventions, and no new, more effective methods of production or organisation introduced. In most cases state-owned companies make use of what has been gained through the creativity of private businesses (Marshall 1932, 668; [1920] 1947, 304; 1907, 16, 22). This thought was expressed by Marshall most explicitly in his article entitled *The Social Possibilities of Economic Chivalry*, wherein he argued that '[i]f Governmental control had supplanted that of private enterprise a hundred years ago, there is a good reason to suppose that our methods of manufacture now would be about as effective as they were fifty years ago' (1907, 21).¹⁸ In *Industry and Trade* he wrote then that 'the heavy hand of Government tends to slacken progress in whatever matters it touches' (1932, 672). For this reason he treated expanding the activity of the government into industries which demand constant initiative and energy as a social evil, arguing that such actions 'retard the growth of knowledge and those ideas which are incomparably the most important form of collective wealth' (Marshall 1907, 22). Marshall was convinced that the chances of improving the human condition would diminish greatly as 'the pressure of bureaucratic methods would impair

¹⁷ Marshall adopted a similar attitude in a letter to Lord Reay from 1909 (Whitaker 1996b, 232–234; see also: Marshall [1920] 1947, 229–230; [1923] 1929, 260).

¹⁸ The words might be treated as a prophecy taking into consideration the experience of the so-called 'eastern bloc' countries.

not only the springs of material health, but also many of those higher qualities of human nature, the strengthening of which should be the chief aim of social endeavour' (*ibid.*, 18). Marshall claimed that even if those changes were introduced gradually, without moral change the roots of social welfare would eventually be cut down, and that this would impede economic progress. He also pointed out that the increase of the state sector paves the way for corruption, which usually occurs at the intersection of economics and politics (1932, 43, 496).

In view of the above, Marshall warned against a hasty criticism of competition and against the different solutions that were aimed at curbing it. He pointed out that in many instances, behind the calls to 'regulate competition' were groups of producers trying not to allow the emergence of new companies on the market, especially if they were able to provide cheaper or better quality products. 'When a man exerts himself to arrest or diminish competition,' he wrote in one of his letters, 'his motive may be the public good: but as a matter of fact it very seldom is. In at least nineteen cases out of twenty, his motive is to prevent his being at a disadvantage in spite of his being less energetic as a worker, less ready to throw away obsolete machinery &c. as a capitalist, than those whose competition he finds disagreeable' (Whitaker 1996a, 293; see also: Marshall [1920] 1947, 5–10; 1926a, 389–390).

To sum up, it may be said that Marshall claimed that the benefits derived from the existence of competition outweighed the losses caused by it.

Economic chivalry

The crowning achievement of Marshall's deliberations on the subject of the desired direction of human development was his concept of economic chivalry. There is a symbolic dimension to the fact that the idea was revealed in his last publication before retiring in 1908. The article *The Social Possibilities of Economic Chivalry*, came out a year earlier in a British scientific periodical "The Economic Journal".

The vision presented by Marshall in this essay is purely normative. The starting point was deliberation on the motives that spur people to take economic action. He concluded that the primary incentive for undertaking an economic activity is 'a chivalrous desire to master difficulties and obtain recognised leadership', and not the sole need to make a profit for the sake of profit (Marshall 1907, 14; see also 1932, 180). Wealth is perceived first of all as a marker of achieved success, the manifestation of successful undertakings, and it is desired mostly as such. On the basis of that he built his conclusion that there is the possibility of the situation which J.M. Keynes ([1936] 2012, ch. 24) later defined as conducting the same game but with lower stakes. The means leading to this goal was, according to Marshall, the implementation and enforcement of a certain set of

norms that would fulfil the role of a code of conduct for entrepreneurs, modelled on the medieval codes of chivalry.

Marshall placed high demands on businessmen – ‘the economic knights’. He claimed that they should possess and develop such virtues as honour, endurance, and courage. On top of that they should have a ‘public spirit’¹⁹ and experience

a delight in doing noble and difficult things because they are noble and difficult (...), a scorn for cheap victories, and a delight in succouring those who need a helping hand. It does not disdain the gains to be won on the way, but it has the fine pride of the warrior who esteems the spoils of a well-fought battle, or the prizes of a tournament, mainly for the sake of the achievements to which they testify, and only in the second degree for the value at which they are appraised in the money of the market. (1907, 14)

At first glance the fact that Marshall described his desired model for entrepreneurs by referring to the chivalric code seems surprising. However, in Victorian times the commonly approved moral code – an ideal of a gentleman – as well as the medieval ideal of a knight had a lot in common with each other. The correlation between the two has also been pointed out by the Polish social philosopher and ethicist Maria Ossowska, who treated the concept of the ‘gentleman’ as a phase in the evolution of the chivalric code (1973, 157–192). Marshall’s idea may well be treated as a step drawing attention to and developing some elements underlying the moral code typical of the time and place where he lived.

When discussing economic chivalry it needs to be added that the role of the authority which would continually decide on the compatibility of entrepreneurs’ actions with the desired norms would be played, according to Marshall, by public opinion. It would be a sort of informal court of honour that would keep watch so that ‘the wealth, however large, should be no passport to social success if got by chicanery, by manufactured news, by fraudulent dealing, or by malignant destruction of rivals’ (Marshall 1907, 26). For that reason the development of the press, the popularization of education, democratisation of political life and all the other actions leading to the strengthening of public opinion were treated by him as highly positive (Marshall 1926a, 395–396; 1913, 402–403).

Economic chivalry was, in Marshall’s eyes, a cure for all the negative effects of free competition. Following the development of such attitudes, competition at the economic level would automatically adopt a noble ‘chivalric’ character (Whitaker 1996b, 363). This would allow for keeping, even strengthening, entrepreneurship, initiative and other characteristics underlying economic growth, while at the same time it would facilitate solutions to social problems (Marshall 1907, 28–29).

¹⁹ ‘Public spirit’ designated certain loyalty of the entrepreneur towards the society which was to be an equivalent of a knight’s loyalty towards the prince or the country (Marshall 1907, 14).

To obvious drawback of Marshall's vision is that, the further on we read in his essay, the more difficult it is to get rid of the impression that his arguments are of an utopian nature. The primary problem here lies in the fact that Marshall did not explain why entrepreneurs would or should accept and realise his model. One may even have the impression that he assumed that the popularisation of such attitudes would happen independently, as a spontaneous evolution of the norms which are upheld by industrial elites, which would then later be adopted by other participants in economic life. Marshall seemed to firmly believe that mankind was heading towards the realisation of such an ideal, and in summing up his deliberations he optimistically claimed that '[t]here is much more economic chivalry in the world than appears at the first sight' (*ibid.*, 25; see also 1932, 179–180).

Role of economics. Marshall's stance on putting theory into practice

In order to solve the other puzzle presented in the introduction – why did Marshall also take into account the ethical aspects when forming his recommendations about economic policy – of key importance is the way in which he perceived the primary goal of conducting economics. Marshall treated gaining knowledge about economic life and understanding the mechanisms and processes happening in this field as a means to eventually enhance human existence and the development of mankind, a view that seems to be in accordance with his above-presented opinions. In other words, economics was recognised by Marshall as a special tool, the perfection of which would better the conditions of human existence (see also Pigou 1925, 82).

In applying such an approach, it is of great importance to determine the relation between the theory of economics and economic practice. How does one use the acquired knowledge? How is the theory of economics to be applied in practice? These issues are especially difficult, and it should be emphasised at the very start that Marshall did not refer to them in an explicit way. Still, in view of the many remarks he made a picture arises that boils down to the following rules:

- the starting point should be gaining the widest possible knowledge about economic life, the knowledge about 'what there is' (that is, the demand for conducting economics as a positive science);
- the choice of the method for acquiring this knowledge should be the economists' responsibility. It is not possible to choose one, best method of scientific investigation, which is why each economist should select (or create) those tools which are the most suitable from the point of view of his or her own research methods;
- regardless of the chosen methods of research, one should strive to create a theory which would be as close to reality as possible.

In Marshall's vision of the proper relations between the theory of economics and economic practice this is the key demand, and its special significance comes to light the moment it is perceived that economic life undergoes continuous changes. This is the basis for his demands to continuously confront economic theory with reality; his recognition of the relativism of economic laws; his objections to 'long chains of deductive reasoning' when creating it and to the use of the partial equilibrium method; his reservations about the over-formalisation and mathematisation; his criticism of the use of the *homo oeconomicus* model, and his recognition that the model economists should adopt is rather biology than the sciences.

- the theory thus created may be useful when analysing economic aspects of practical problems, though in itself it is not able to provide ready-made recipes. The significance of the theory of economics was treated by Marshall as essential because economic aspects of social problems were perceived as among the most difficult to capture without the aid of 'systematic and organized methods of reasoning' (Marshall 1925d, 164). At the same time he emphasized that when making the final decision in any practical case it is crucial to take other dimensions into consideration, because problems of a purely economic character happen in practice extremely rarely (if ever).

In view of this approach Marshall's practice of including non-economic aspects looms as the embodiment of his viewpoint on the subject of the relation that should bind the theory of economics with its application. It must be admitted here that in his voluminous output it is quite rare to find a publication in which he combined purely theoretical argumentation with applied economics, and even if he did so, he would rather treat it as an opportunity to show his potential audience that the recommendations flowing from the theory could not be transferred directly into the foundations of economic policy. His own solutions and guidelines were presented in specially prepared memoranda, petitions, articles or letters. As an exception to the rule may be treated *Money, Credit and Commerce*, in which he presented projects for reform of the monetary system, and his remarks on the functioning of labour unions included in *Principles*. In the first of these cases there is a kind of justification lays in the fact that those projects were strongly connected with Marshall's theory of money and his comments on the subject of cyclical fluctuations of the economic performance. As regards the extract on labour unions, which did not appear in *Principles...* until the fifth edition (1907), it was then that Marshall lost hope that he would manage to prepare Volume 2, in which he would discuss the problems of the labour market in a full and systematic way.

His *Memorandum on the Fiscal Policy of International Trade* is a model example of his fidelity to his own vision of the proper application of economic theory in practice. The document consists of two separate parts, the first of which is devoted to presentation of the elements underlying the theory of for-

oreign trade. These arguments lead to the creation of general conclusions stemming from pure theory. In the second part, Marshall applies these theoretical deliberations to the contemporary situation of Great Britain, widens the analysis to encompass issues of a political, ethical, and social nature, and only after they have been included does he move on to the creation of his final recommendations.

Conclusions

In evaluating the relations binding economics and ethics over the centuries, Amartya Sen pointed to two major approaches: ‘the ethics-related tradition’ vs. ‘the engineering approach’. The essence of the first one, coming from Aristotle, was based on the recognition that the reflection on economic life should eventually serve the welfare of people and ‘the common promotion of a good quality life’ (Aristotle 1958, III. ix as quoted by Sen 1987, 3). As regards ‘the engineering approach’, however, it is assumed that the goals are given and specified, and the role of economics is to provide knowledge which would make it possible to achieve them at the least cost. Sen indicated that economists such as William Petty, David Ricardo, Augustine Cournot and Leon Walras were representatives of this latter approach. It needs to be noted that in the works on methodology this approach was adopted by Senior, Cairnes, and Lionel Robbins.

The complexity of Marshall’s approach to conducting economics arises from the fact that in his economic system he tried to combine both approaches. As an ideal he posited that economics should be conducted as a positive science, which brought him closer to ‘the engineering approach’. Contrary to the conviction of Hans Jensen (1990), the analysis of his thinking by no means indicates that he would have accepted J.M. Keynes’s statement that ‘economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value’ (1973, 297). Quite the contrary, Marshall argued that on the theoretical ground value judgments should not take place – an economist as an economist cannot indicate goals and his role in indicating the means is also limited. Despite this, even a hasty reading of his works clearly shows that his approach was strongly rooted in ‘the ethics-related tradition’ – in his treatises he developed not only the pure theory of economics, but he also tried to teach people how to live and which traits or virtues they should attend to, and his purely theoretical reasoning was interspersed with remarks on the proper models of conduct and values worth cultivating. It seems here that Marshall was subconsciously an advocate of a kind of ethical absolutism, which was indicated by John Whitaker as well – he was convinced that on the most general level one can

name certain universal moral values which are or should be commonly approved of (1977, 172–173)²⁰. The values that seemed universal for him were in accordance with the unwritten ethical doctrine of his epoch, i.e. the Victorian morality. It is striking that Marshall's moralizing did not offend his contemporaries nor did he seem aware of it, which may be explained by the fact that he presented opinions characteristic of the time and place in which he lived. However, for the next generations of readers those 'sermons' became easy to notice and a certain restlessness, or even irritation, arose even in those that were declared supporters of his theory of economics (see Guillebaud 1952, 113–114; Shove 1942, 316). Such extracts were usually simply ignored, though there were also those who, like Joseph A. Schumpeter, openly questioned the legitimacy of placing '*professiones fidei* in a scientific treatise' and who did not hide their irritation at the very tone of Marshall's remarks (Schumpeter 1941, 244–245; see also Levitt 1976; Matthews 1990, 14, 20–30). In view of the above and similar comments, the failure of Marshall, who for over half a century had been an undisputed authority in the Anglo-Saxon world of science, might for a number of economists work as a strong incentive to avoid all sorts of deliberations on the subject of ethical issues or even ethical aspects of economic issues.

The very inclusion of ethical aspects in the formation of solutions to problems of economic policy is not in conflict with the postulate of conducting economics as a positive science, and Marshall's approach reflects a deep awareness of the problems appearing at the intersection of pure and applied economics. Although Marshall's practice of including non-economic aspects when solving practical issues is worth recommending, it needs to be stated that Marshall failed in conducting economics as a positive science. The failure is all the more striking as it seems he was not aware of it. This does not prove, however, that conducting economics as a positive science is not possible. On the other hand, it proves that achieving objectivity and freeing researchers from the chains of the commonly declared ideologies is, in the social sciences, an inherently difficult task.

²⁰ Confirmation of such judgment may be deduced from the articles by T. Parsons (1931, 101–140; 1932, 316–347).

Gunnar Myrdal's Take on Global Inequalities

Short presentation of the Nobel laureate

Gunnar Myrdal, one of the most outstanding Scandinavian thinkers of the 20th century and the laureate of the Nobel Memorial Prize in Economic Science in 1974,¹ was a great advocate of organized international aid for the poorest countries. This was supposed to be a part of a bigger plan – to have governments introduce an ‘egalitarian policy’, the final aim of which was world economic integration. Myrdal presented the concept of egalitarian policy for the first time in the work *An American Dilemma: The Negro Problem in America and American Democracy* (1944). However, the work, written from the angle of a sociological analysis, was confined to only the subject indicated in the title. In his later works Myrdal expanded his deliberations by referring to the world economy, and his recommendations were to provide for a more just sharing of the goods. The views of his were presented in, *inter alia*: *An International Economy. Problems and Prospects*; *Economic Theory and Underdeveloped Regions*; *Beyond the Welfare State*; *Rich Lands and Poor: The Road to World Prosperity* and in the three-volume work entitled *Asian Drama. An Inquiry into the Poverty of Nations*.² In the latter work, whose size was referred to by the author himself as ‘abominable’, he makes reference in the title to Adam Smith’s classical work: *An Inquiry into the Nature and Causes of the Wealth of Nations*. He outlined the credo of his scientific work in the Nobel lecture *The Equality Issue in World Development* (Lindbeck 1992, 193–211).

Myrdal, apart from being scientifically active, was a practitioner as well. For many years he had served Swedish social democracy as an export-politician, and in the years 1947–1957 he was the first Executive Secretary of the United Nations Economic Commission for Europe. He also was also the co-founder of the Institute

¹ Gunnar Myrdal received the Nobel prize in cooperation with Friedrich August von Hayek ‘for their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social and institutional phenomena’.

² The bibliography of Myrdal’s works is very broad. Harald Bohrn (1976) ventured to put it together, and his bibliography comprises over one thousand publications in a number of languages.

for International Economic Studies and the Stockholm International Peace Research Institute. He engaged himself in the work of organisations helping economically underdeveloped regions in South-East Asia, Africa and Latin America (*ibid.*, 193–211; Nowicki 1984, 186–187).

Inequalities and how to reduce them

The theses formulated by the Swedish economist in the 1950s dealing with the discrepancies in the level and pace of the world's development are pertinent today as well, since the problem has not disappeared, although the proportions of the wealth and poverty among countries have changed significantly. According to Myrdal, in the first half of the 20th century there was a small group of affluent countries and a much bigger group of very impoverished states. The countries belonging to the first group were treading the path of constant economic development, while the development of the states of the second group was slower and a great lot of them faced the threat that it might never be possible for them to free themselves from stagnation. Myrdal called attention to the fact that the economic inequalities between the developed and underdeveloped countries in the recent decades had been increasing (Myrdal 1957a, 5–6). He considered the disproportions to be the effect of dissimilar domestic policies, since in the wealthy countries equal opportunity policies had already been implemented, while the poor countries had not yet created the tools to reduce the differences in opportunities. It seems justified to refer here to one of the parables from the Gospel of Matthew: 'For whoever has will be given more, and they will have an abundance. Whoever does not have, even what they have will be taken from them' (Matthew 25: 29). On account of that Myrdal called for finding a proper programme to help the countries which had no chances for development in the near future.

Apart from indicating institutional barriers, Myrdal also tried to look for the economic factors that caused inequalities in the world. A primary conclusion that he formulated was that the game of market forces, in normal conditions, deepens rather than levels the inequalities between regions. He even argued that if the world market were left on its own to the free play of market forces without any interference of the state, then all the sections economic activity as widely understood (including trade and industrial production, science, education and art) would be centred in one region, whilst other sectors would be placed '(...) more or less in a backwater' (Myrdal 1957a, 26). In the third millennium there are still more regions that are economically and culturally neglected than those that are highly developed. Comparing today's map of poverty with that of one hundred or even fifty years ago it is vividly noticeable that while the group of developed countries has grown bigger and bigger, there are still more countries that are economically underdeveloped.

The Swedish economist not only pointed out the causes triggering inequalities in the world, he also tried to outline the proper framework for actions by states, as the subject responsible for conducting an egalitarian policy. Such policy is easier to run for wealthy countries, in which the discrepancies between particular regions are significantly smaller, than in poor countries in which the natural tendency to create inequalities was reinforced in the past by feudal institutions and authority structures favouring the rich and exploiting the poor. Myrdal emphasised that while the egalitarian policy is costly and its effects are not always immediate, still the wealthier regions are often forced to finance the poorer regions in order to provide greater safety, including for themselves. Once they feel safe, the richer countries will be more willing to give up their privileges and bear the common burden. Such an attitude may strengthen the basis for lasting economic progress. In the course of such development there will come a time of equality and democracy. Myrdal argued that the weaker the development, the greater the inequalities; and that the greater the economic level, the greater are the chances of counteracting the discrepancies. Only those countries that are close to full democracy and possess enough tools to conduct an egalitarian policy, with even the rich groups giving up their privileges, may stand up to the blind market forces generating inequalities between regions (*ibid.*, 39–41).

So what do Myrdal's actual propositions look like today? Agreeing with his wife Alva Myrdal he claimed that first of all actions have to be taken in domestic policy. There is a need for change in social policy concerning the planning and functioning of a family, education and science, health and social protection, workers' rights, and equality for men and women (Myrdal 1941). Only actions in these fields might trigger application of the other tools in egalitarian policy. In the less developed countries the law ought to be adjusted in such a way as to realize the necessary reforms without any hindrances or delays. Moreover, all the underdeveloped countries need improvement in administration, together with combating corruption. A lack of reforms, or even their delay, makes it difficult to stop groups that obtain dishonest profits from expanding their scope of economic activity and authority. Myrdal argued that changes in the functioning of the underdeveloped countries would not be possible without making use of experts and advisers and the research from the developed countries. The experts should be good lawyers, qualified experts in administration, and be able to comprehend the specific conditions of a given country, its unique traditions, the common lack of understanding of the public interest, as well as the scope of poverty and the lack of education among the masses (Myrdal 1970, 304–314). Such aid would not be very costly and would provide great benefits. Institutions and economic authorities employed by the governments of the underdeveloped countries ought to be characterized by professionalism and their actions should be based on ethical values. They should work in a stimulating way on the human resources coming directly from the underdeveloped countries (Myrdal 1958, 36–37).

Egalitarian policy cannot confine itself only to taking action in the underdeveloped countries themselves. The affluent countries should treat the help provided as a manifestation of collective responsibility. Myrdal (1970, 355–356) calls for bringing the issues to the attention of the developed countries in order to build in them a feeling of generosity in relation to the Third World countries. Such an attitude is considered necessary for the support of any programme rendering help to the poor regions. The policy of aid cannot be neutral, as moral beliefs are not indifferent to social conditions. Myrdal emphasises that the governments of many countries rendering assistance to the less developed countries do not take this issue into consideration at all, which makes it impossible for them to render assistance in a just and effective way. Myrdal warns against abusing support for poor countries only for political reasons, since not only is it unethical from the perspective of the countries that accept the aid, it is also unethical for the countries that render such aid. This national selfishness is equally dangerous for building a peaceful and progressive international community as individualism is for the consolidation of a society – nation – country (*ibid.*, 432). Such attitudes, according to Myrdal, generated difficulties when rendering assistance within the framework of the UN.

In Myrdal's opinion, thanks to the maintenance of a high rate of economic growth and a policy of interventionism, inequalities in the affluent countries have been levelled to a great extent. While the aid to the poorer countries has indeed taken away the vision of their economic collapse, nonetheless as long as the countries themselves do not counteract the inequalities the discrepancies between the rich and the poor will keep on growing. The international situation is becoming even worse, as there exist only the faintly perceptible beginnings of something in the shape of an international authority which could render the tasks performed in the name of the authorities of given countries. Myrdal still thought that even if the effectiveness of controlling market forces at the global level is poor, the condition of the underdeveloped countries is nevertheless by no means hopeless. They should try and manage their economy, especially influencing international trade (Myrdal 1957a, 68).

Complexity of integration

Myrdal's recommendations regarding egalitarian policy cannot be understood if we do not juxtapose his theory with his concept of world integration. In his output he devoted a lot of space to presenting the quality and usefulness of integration. He claimed that it does not yet fit the reality of the today's world, but it is an ideal that should be strived for (Myrdal 1956, ix–xi). According to critics Myrdal's concept of world integration needs to be referred to as idealistic, which means it does not explain much (Kamecki 1967, 84–85). Still, the Swedish scien-

tist emphasized that even if the state of complete integration cannot be reached, the factors that hinder it still need to be eliminated. The path to come close to full integration is to attain a high level of international cooperation through bilateral and multilateral agreements between the sovereign countries. The aim of these agreements is to build a common policy, coordinated by a coalition of governments of various countries acting above their national differences (Myrdal 1956, 5). According to Myrdal, examples of such a policy can be seen in the actions of various organisations within the framework of the UN and institutions of European cooperation.

The term 'economic integration' became especially popular after the Second World War. It came to symbolise new ideals, aspirations, and visions of political agreement. According to Myrdal, this phenomenon was the outcome of the old western ideal of freedom and equality of opportunity. The economy will never be integrated as long as it is not open to everybody and grants equal access to the services which it offers – regardless of social, cultural, or racial differences. Only in such a community can integrity in social policy be attained. Members of the community have to feel that they have the same interests, and they should also be collectively responsible for the realisation of the conditions on which integration is built (Myrdal 1956, 11; 1958, 3–5).

Myrdal devotes attention to the fact that the phenomenon of integration is of a complex nature, comprising economic, sociological (including social awareness), political, legal and cultural elements. Integration is also supposed to have a close connection with economic progress. For that reason the citizens of richer countries are better prepared to accept the effects of international cooperation. The Swedish researcher even writes that *gros* of highly industrialised countries had already, in the first decade after the Second World War, reached a relatively high level of internal economic integration, but they were not yet ready to move on to the next phase of the process (Myrdal 1956, 11–13). The aim of integration is to equalize the income which may be attained through a long-term egalitarian policy (Myrdal 1957b, 50–51).

The implementation of an egalitarian policy is a part of the larger process of international (world) integration. Myrdal differentiates between national and international integration, although each may influence the other. The process of national integration should trigger the need for international cooperation, however, it also reinforces the difficulties connected with it. The Swedish economist claims that national integration may stand in the way of international integration. A strong inner integration may contribute to an increase in affluence, thus causing societies to fear that entering the next stage of integration may disrupt their beneficial situation. International integration ought to be based on solidarity, which supports internal integration. Otherwise the citizens of one country may become distrustful towards the citizens of other societies. Most countries do not want to give up the positive effects they obtain from national integration. On

account of this, paradoxically the process of national integration in the highly developed countries after the Second World War contributed to world disintegration (Myrdal 1957a, 74). Myrdal does not exclude integrations of a lower scale. In writing about the 'wonder of sovereign countries' he gives the example of the Scandinavian countries, which have been through the phase of internal integration and moved on to international integration (Myrdal 1956, 11–13).

Besides his division into national and international integration, Myrdal differentiates between static and dynamic integration. Static integration is characterized by stagnation and isolationism – resigning from international cooperation. Dynamic integration, on the other hand, comes into being when economically advanced countries enter into a close cooperation that leads to mutual economic adjustments (*ibid.*, 10). The main reasons for static integration stem, according to Myrdal, from too little social integrity and solidarity between countries, too little effective international policy, and an orientation mainly towards national integration. In Myrdal's opinion the situation in question was triggered, *inter alia*, by the policy of the United States and the Marshall plan, which resulted in internal integration in part of Western Europe but provided no motivation for common projects with respect to third countries. On the other hand, however, Myrdal notes that new economic conditions have been established (price stability, freedom of trade), which should restrain cruel bilateralism against third countries and facilitate international integration (Myrdal 1963, 137). Only in the case of a good economic situation is integration possible, and economic stagnation causes autarkical tendencies. Myrdal warned against an international integration of the Soviet type in view of the domination of only one country (USSR) and the lack of sovereignty of the other countries belonging to the union (Myrdal 1956, 146). This type of integration was static in nature, while the integration in Western Europe had the characteristics of dynamic integration. Myrdal's distinction of the types of integration thus lacks precision and consistency. Still, it should be acknowledged and appreciated for the fact that it was one of the first attempts to define and differentiate between types of integration, and the characterisation of the phenomenon-process was conducted by Myrdal over a period of 20 years.

Bits of theory

According to Myrdal it is difficult to find a proper measure of the level of integration. This results from the difficulty of precise comparisons of economic ratios between countries (Myrdal, Bouvin 1933, 3). The products of integration were assumed to be migration, movement of capital, intensification of the exchange of goods and services, and international aid. Myrdal's opinion differs from the concepts of others (Streeten 1961, 13; Balassa, 1961, 1; Tinbergen 1965, 57), who perceive these factors rather as causes or tools facilitating integration than

its products. However, according to the Swedish economist they are the means influencing the culminating process in the privileged regions – their further development; and in the underdeveloped regions – leading to their further stagnation. The liberalisation of trade and the expansion of markets gives a competitive advantage to the industrialised and economically expansive countries (Myrdal 1957a, 27–29, 53).

Myrdal analyses the Heckscher-Ohlin theorem, according to which free and competitive international trade is determined by the resources of the countries which take part in the exchange, which makes factor prices converge with traded goods prices. In Myrdal's opinion this statement cannot be explained in practice. It is based on unreal hypotheses and did not have any application in the economic history of the world of the first half of the 20th century (Myrdal 1958, 6–7). Freedom of international trade leads to the increase of inequalities between the developed and underdeveloped countries. The affluent countries keep on developing, while in the meantime the poorer countries develop less and less (or they stop developing at all). This happens because import from the latter countries is discriminated against. The highly developed countries are domineering in world trade and finances, and for this reason they have a great advantage over the underdeveloped countries. Having no economic interest to do so, they do not promote trade of the less economically developed countries (Myrdal 1978, 131–132).

Myrdal concluded that the Heckscher-Ohlin theorem could to be applied only to countries with a similar – that is high – level of economic development. This is because of state intervention and the influence of factors stimulating development, which are stronger than in the less developed countries. For that reason Myrdal recommended reforms in the trade policy of the highly developed countries in order to oppose the discrimination against the poorest countries (Myrdal 1956, 88; 1970, 334–336).

Myrdal asserted that foreign trade helps diversify the incomes of both the rich and the poor countries, and it has a positive impact on economic growth. The movement of labour, capital, goods and services facilitates the constant development of the highly developed countries, and only in accordance with such an assumption is international integration possible. This leads to the conclusion that the rate of increase of international trade turnover is higher than the rate of increase of production, and this cannot be stopped by customs or tariffs, which can only make the exchange slower. For this reason trade restrictions and customs are not a big threat, since even if prices of domestic products rise or real wages decrease it will only be for a short period of time. In the long run the prices will fall again and wages will rise, thanks to the influence of foreign trade (Myrdal 1955, 120; 1956, 32).

Similarly to trade, the movement of capital has a big impact on equalising the level of the economies of highly developed countries. The migration of labour

has a less significant influence though. For the sake of international integration the ideal situation would be to liquidate the situation whereby the labour force would head only to those countries which have the highest economic level. Myrdal is an advocate of opening the borders and letting the citizens look for employment in all countries, but this can happen only when the drastic differences in the level of the development of given regions become reduced (Myrdal 1956, 95–98; 1957a, ch. V). However, in practice the regions with the higher economic level attract the best workers and the greatest share of capital, while the other countries/regions have a less efficient labour force, smaller possibilities of saving, and less favourable investment opportunities. It is thus impossible to prevent the natural tendency towards inequalities between regions (Myrdal 1957b, 30–31).

Myrdal's concept in 21st century

In confronting the course of the integration processes in the 21st century with Myrdal's views, one has to try and differentiate between the theoretical threads and the actual course of this process in Europe and in the world. The Swedish Nobel prize winner accentuates that integration functions only among the affluent countries enjoying a high level of economic connections. As regards international integration (i.e. world integration), it is not being realized. The domination of the rich countries over the less-developed is causing international disintegration, although it can still be counteracted. Since trade and the movement of capital and labour are not able to overcome interregional inequalities, a long-term planning policy has to be conducted, both at the national and international levels.

The planning model proposed by Myrdal is far from the one that was implemented in the states of the 'real socialism' bloc. His suggestions assumed planning of the macroeconomic variables with minimum bureaucracy and maximum decentralization of economic decisions. This type of planning would, in Myrdal's opinion, allow for the creation of a global affluent state accessible to all citizens of the planet (Landreth, Colander 2002, 482–483). The highly industrialized countries should get down to planning for the whole world. Focusing solely on their national planning will contribute to world disintegration. The rich countries which do not take part in planning on the world scale may incur additional socio-economic costs. As regards the poorly developed countries, they have to concentrate on national planning in order to stimulate their static economies, increase income, and fight demographic problems. Only then are they capable of getting closer to the western ideal of social justice (Myrdal 1963, 144–146). The integration forms may undergo evolution; national integration is, in relation to the international integration, a secondary process, albeit necessary to trigger the latter.

The tendencies towards increasing inequalities are obviously an obstacle to integration, as well as to the development of given countries. An increase in the level of equality has to be the fundamental condition for the acceleration of development. Apart from planning, Myrdal recommended institutional changes of a wide scale, based on international cooperation. The involvement of the institutions should mainly deal with three fields: economics, law and social policy (Myrdal 1955, 191–207; 1970, 94). Expanding the possibilities of action of new organizations can accelerate the creation of the affluent state. The aspiration of the institutions should be to reach such a state not only in the highly developed countries, but also in the whole world in order to realize the concept of the 'world of welfare' (Myrdal 1956, 324). The foundations upon which international integration should be based include a world without borders and without drastic differences between their citizens at the level of life, management, education, and social awareness.

Myrdal's views on the subject of integration were significantly different from most of the presented theories. Although he was not against the liberalization of international trade, he believed that the coordination of trade and monetary policies was a necessary condition for the proper development of the integration processes. International institutions ought to take care of removing obstacles in trade and eliminating the negative effects of free exchange. The differences in income between the highly industrialized countries and the developing states made it necessary to take a fresher look at the system of connections in international trade and finances. Myrdal's concept resulted in the creation of many regional forms of cooperation in non-European areas³, and it also contributed to the provision of aid to the underdeveloped countries. The concepts of the Swede did not prove to be anachronistic, even in the times of rapid advancement of the development of the economic world in the globalization era. The Swedish researcher did not, however, give a clear answer to the question about the relations between the level of inequalities and the influence which they exert on the overall level of economic growth.

An important element in the output of Nordic economic thought was the emphasis of the role planning plays in the economy. Myrdal's research was indirectly applied not only in the economies of the Scandinavian countries, but also to actual programmes implemented by the European Union. Planning, in Myrdal's formulation, was an integral part of the broad concept of the 'welfare state'. Its realization was promoted particularly in Sweden (but also in other Nordic countries) during the time of the long-standing rule of the social-democratic party. The indisputable achievement of the Swedish school was put to the test during the time of crisis of the welfare state. Even if the welfare state was not

³ In the 1950s, when Myrdal was presenting his concept, no one would have thought that at the beginning of the 21st century there would be so many integration groups in the whole world.

kept in its shape in the 20th century, the time during which it was realized was by no means wasted. It was one of the most successful social experiments in the whole history of humanity. Apart from that, unlike social realism, the welfare state brought its citizens a correspondingly high income and benefits in the form of proper aid from the public sector. The Nordic concept of the 'welfare state' may then be referred to as an important trial in the reconciliation of uncontrollable economic liberalism and the system of a centrally planned economy. The issue of the functioning of the welfare state in the conditions of European integration has become an important challenge, and not only for the Scandinavian heirs of Myrdal's thought. It provides a basis for the formulation of modern assumptions of the egalitarian policy and international integration.

Relationship between Economics and Ethics in the Thought of Mohandas Gandhi An Attempt to Understand Contemporary India

Aims and sources

This chapter aims to present the economic thought of Mohandas Karamchand Gandhi in relation to ethical issues. When studying the views of the great Indian one very often comes across the information about the close connection between economics and ethics. According to Gandhi both spheres should by all means be inseparable. In order to verify this conviction, it is becoming acquainted with some aspects of Gandhi's concepts, or rather his judgements about various economic issues. A selective presentation of these opinions may be justified by the fact that it is difficult to find coherence in his socio-economic system. It is even somewhat risky to write about Gandhi's system. In fact, his economic thought does not fulfil the requirements of economics as a scientific discipline. This is not said as an argument to reject a scientific analysis thereof, however. A number of his remarks of a micro- and macroeconomic character were extremely valuable and may be used at least in researching the economic changes happening in India in the 20th century, or in getting to know the attitude of the Indian society to these changes.

There is a vast literature covering the life and activity of the Indian leader.¹ The subject of Gandhism and its economic dimension is presented in many compilations in English, especially by Indian authors. Among them is a work of the author of the term 'Gandhian economics' – Joseph Cornelius Kumara. Moreover there are the works of Ajit Dasgupta, Sudarshana Iyengar and, among the Western authors there is, inter alia, Richard Glyn. The most important Polish scientific work on the subject of Gandhi's ethics is a book written by Ija Lazari-Pawłowska (1965). She systematised his scattered moral directives, although she looked at them with the eyes of a philosopher and not an economist.

¹ Many translated works have been published in Polish, including among others by: Clément, Frèches, Schweitzer, Wolpert (see references).

The primary source of learning about Gandhi's beliefs is his *Autobiography (The Story of My Experiments with Truth)*, which he finished in 1925 (over 22 years before he died). In order to find more of his views about economic development one has to refer to the work *Hind Swaraj*, written in 1909, and obtain the recording of his speech from 1916 entitled: *Does economic progress clash with real progress?* One has to bear in mind, though, that over time Gandhi modified some of his beliefs. While he once said that he never had a final opinion about something (Iyengar 2005, 2), still his central theses usually remained unchanged.

Gandhi's roots and influences

There is certainly insufficient space here to even briefly present the biography of Gandhi. However, in relation to the present work it is worth having a look at those issues that shaped his economic views. Thus his family background, education, stages of intellectual development and inspirations from economic or philosophical texts need to be taken into consideration. The actions of Gandhi manifest themselves best in practices which were tightly connected with Indian tradition (including religion and philosophy), and it should be noted that he was rather detached from the views of western thinkers.

Gandhi was born in 1869 in the subcaste *modh bania*, belonging to the caste of *wajśja (bania)* comprising merchants, craftsmen and farmers. The Gandhi family did not engage in trade. The father and grandfather of Mohandas were governors in manor houses popular in India during the British colonial reign. What is significant here is the place of Gandhi's family on the caste ladder in India. The case that he represented ought to be referred to as middle nobility (today we would call it middle class), i.e. in the middle between the highest castes (priests-Brahmins and warriors-knights) and the lowest groups (Shudras-servants and the so-called untouchables – excluded from the caste system). Functioning in the *wajśja* caste made it possible to for Gandhi learn about the reality of life of both the rich and the poor.

In the first stage of his education (until the age of 18) Gandhi attended Indian schools, but thanks to his family's help he was able, in the years 1888–1891, to study law in London, which allowed him to become acquainted with western customs, capitalist reality and the views of western intellectuals. In 1893 he was sent by an Indian trading company to South Africa. As a solicitor Gandhi worked there until 1914, and during this period he fought for the rights of Indian minority and was interested in the political, economic and social reality. At the outbreak of the First World War he left for London and from there he returned to India for good. As a leader of the Indian National Congress he started his activity for the improvement of living conditions of the citizens of his coun-

try and for their independence (including economic independence) from Great Britain. According to the great humanist and Nobel laureate Albert Schweitzer² (1952, 227): 'Never before has any Indian taken so much interest in concrete realities as has Gandhi. Others were for the most part contented to demand a charitable attitude to the poor. But he and in this his thought is just like that of a modern European who wants to change the economic conditions that are at the root of poverty'.

Based on the rigorous moral values (among other things, *ahimsa* and *brahmacharya*) Gandhi worked out his own method of armed struggle. *Satyagraha* was based on achieving one's aim without violence and without nourishing hatred towards the opponent. The actions of Gandhi's followers boiled down to rejecting cooperation with the colonial authority and not fulfilling the orders that they considered unfair. The attitude of Mohandas – the father of the Indian nation – eventually led to India's gaining independence, although he himself could not accept the division of India and Pakistan. On 30 January, 1948 less than half a year after the ground-breaking event he led, he died at the hand of an extreme nationalist.

There are some disagreements concerning the texts studied by Gandhi in his London and Southern-African days. Usha Arun Chaturvedi argues that Gandhi's economic thought was based on very strong scientific foundations. He is said to have read the history of British India written by an Indian author Rome-sha Chundera Dutta, and is supposed to have gathered information about the Indian economy before the British reign and to have looked for the causes of its crisis during colonial governance. According to Chaturvedi, Gandhi was trying to understand western economics, supposedly studying the *Wealth of Nations* by Adam Smith and *Capital* by Karl Marx in order to better comprehend socialist thinking.

Gandhi himself referred modestly to his scientific experience and was well aware of his limitations. He believed that his narrow scope of reading allowed him to be more cautious of what came to his head (Gandhi 1940, p. IV, ch. 18³). He admitted that when he was a student he did not read much apart from student's books and with his intensive social work he did not have much time for reading. Moreover, in 1909 in the book *Hind Swaraj* he openly acknowledged having little knowledge of economics – he did not even read the works of such great economic authors as Adam Smith (contrary to Chaturvedi's opinion) John Stuart Mill or Alfred Marshall (Iyengar 2005, 2). In his *Autobiography* he even wrote that he did not comprehend the issues described by Jeremy

² Schweitzer was a French philosopher, theologian, doctor and musicologist of German origin. In 1952 he was awarded the Nobel Prize for his medical, missionary and charity activity in Africa. According to Albert Einstein, he was the only man of the West who exerted a transnational influence on modern generations comparable to the impact of Gandhi.

³ The autobiography is divided into parts (p.) and chapters (ch.).

Bentham in the *Theory of Utility* (what he supposedly meant was the *Theory of Legislation*), which in London was read to him by his friend (Gandhi 1940, I, 14). However, some utilitarian theory was instilled in him, especially in his conviction that the aim of moral actions, and in the broader sense the socio-ethical actions, is the happiness of the greatest group of people. And in this aspect one can see a common denominator in the thinking of Gandhi, Bentham, James and John Stuart Mill, although in the case of Gandhi it did not stem directly from studying the works of the others, but rather from his own views and observations. Gandhi did not agree with associating economic happiness with material happiness, which western thinking was filled to the brim with (Dasgupta 1996, 8).

Without much reservation we may then assume that the book which had the greatest influence on the thinking of Gandhi was the one written by John Ruskin entitled *Unto this Last*, which the Indian even translated into *gujarati*. After reading the work he decided to radically change his life. Ruskin was famous in Europe more as an art expert, but he also was a critic of capitalism. In his opinion the system was responsible for spreading poverty and forming societies through economics, without morality. Ruskin did not confine himself only to pointing out the barbarities of the system. He suggested discovering such a path of development that would be based not only on rationalism and effectiveness, but also on the spiritual element of humanity. He repeatedly stated that what is true for science and technology, is true also for politics and economics. Gandhi distinguished three rules on which Ruskin's book was based: 1) the happiness of an individual is contained in the happiness of all the people; 2) different professions have the same value since every human has a right to earn their living; 3) the life a man of work has a true value. Gandhi claimed that he acquired the first of the rules prior to reading Ruskin, that he had a vague idea about the second, and he did not think about the third at all. Thanks to Ruskin, however, he realised that the second and the third rule are included in the first (Gandhi 1940, IV, 18).

Another inspiration for Gandhi, apart from Ruskin, was the thought of American writer and philosopher Henry David Thoreau (the supporter of abolitionism in order, inter alia, to respect the natural environment) and the Russian writer and thinker Lev Tolstoy, who despised war, horror, delinquency and sadism (Berlin, 66–67; see also Dasgupta 1996, 16–17). Under the influence of their views Gandhi expanded his own concept of the non-application of violence. He strengthened his belief that the right choice of life path is one based on minimal needs and the simplicity of tools and techniques required to achieve goals. Gandhi also cherished a strong conviction that wealth could be better distributed among people. Gandhi's invoking of Ruskin and Thoreau sufficiently proves that the Indian leader did not avoid scientific achievements of other civilisations (including western ones).

Gandhi's economics. Selected aspects

Ruskin's book inspired Gandhi so much that on numerous occasions he referred to the significance of physical work, and he appreciated everyday duties of boys and craftsmen. Such an approach influenced his understanding of patriotism, which he connected, among other things, with doing a job for the benefit of one's country. What's more, he repeated after *The Bhagavad Gita* that it is better to do any job, even if it does not fulfil expectations, than to do nothing: 'Finally, this is better, that one do his own task as he may, even though he fail, than take tasks not his own, though they seem good' (Gandhi 1940, II, 27). Here it is necessary to say a few words about the economic specificity of India in the first half of the 20th century. More than 90% of the population lived in the country, and because of the dry season work in the field was very limited for almost half a year. This 'involuntary unemployment' encouraged citizens to work in home workshops. However, since the time when the home market began to be flooded with British and eastern goods, this section of the traditional economy had started to collapse. For this reason Gandhi fought so hard for the revival of the domestic spinning industry. Inciting the development of weaving was part of a bigger plan of self-governance – the development of governing and political autonomy.

In the defence of handicraft Gandhi even accepted the possibility of the use of sewing machines, i.e. making use of technological progress. However it should be noted that this was just an exception. Gandhi was not a Luddite and he had no intention of destroying new machines, but on numerous occasions he presented his negative attitude toward the achievements of modern civilisation. Thus he did not appreciate such inventions as the car or rail (unlike the bicycle), telegraph, or even electricity, even though advanced means of transport would make the work of home workshops easier and electricity would increase craft production. Gandhi's criticism even included negating the functioning of hospitals, although as regards this issue he changed his mind, mostly because of his own experiences. One may ask where Gandhi's mistrust came from? Well, the Indian stressed the importance of a simple life, thanks to which one does not waste time doing unnecessary tasks. Unlike classical economists he did not support the division of labour and he himself did not use the laundry or hairdressing services. He claimed that every man could easily become a specialist in simple tasks. He convinced his friends of the great contentment that self-service gives (*ibid.*, III, 9).

Gandhi, in his care and concern for farmers and craftsmen and awarding to them a particular economic importance, in a way instinctively referred to the concept of Sismondi or even to the mercantilist thought. The support of these ideas may easily be noticed in Gandhi as he remarked on the wealth of the country, which in his opinion may also manifest itself in the poverty (modesty) of a nation. His interpretation of this correlation differed from the one presented

by mercantilists. The Indian leader wanted to provide the whole society with material wealth, unlike most of the mercantilist authors who focused on indicating methods of expanding the might and wealth of those in power. At the same time, however, Gandhi set this wealth at very small amounts. The possession and accumulation of goods should be limited to minimum, to those things that are truly necessary. This concept of excluding accumulation (*aparigraha*) was connected with the idea of voluntary poverty, thanks to which it was easier to attain moral standards. Like Aristotle, Gandhi differentiated between necessary needs and wants. He opposed the latter, arguing that greed blocks freedom of choice of human desires (Iyengar 2005, 9). The common denominator between Gandhi and the thought of the Greek philosopher may be noted in their approach to material wealth which in fact is ostensible, i.e. goes beyond human needs. Such views came from the fact that both thinkers referred to material needs not only in economic but also ethical categories.⁴ As Aristotle wrote, fulfilling those needs meant an affluent life but not 'sensual use' (Piątkowski 2001, 40).

Gandhi's criticism of a consumer lifestyle was to some extent close to the thought of Thorstein Veblen, who at the time of the beginnings of globalisation analysed a completely different environment in cultural terms, namely American society. The Indian nation was, at the turn of the century, far from consumer behaviours, but Gandhi perceived a great danger that the same patterns would emerge. Unlike Veblen, he did not concentrate on criticism of the consumer lifestyle, but he 'promoted' an alternative – a code of behaviours based on abstinence. Such an approach even came to be dubbed 'Gandhi's effect' (Raval 1971). Gandhi claimed that it is not necessary to strive for affluence, even if one has the possibilities to attain it. It should be noted that such an attitude would not be consistent with the interpretation of the Gospel by Protestants, who emphasise the necessity to develop talents given to people by God. For Gandhi, Jesus belonged to the greatest economists of his time, especially from the point of view of distribution of wealth (Iyengar 2005, 3). To prove this he referred to fragments of the Gospel according to Mark and the parable about the rich young man who wanted to attain eternal life and was told by Jesus to sell his whole fortune and hand it out to the poor. Gandhi invoked this parable both in order to stress the necessity of levelling the disproportions of wealth, as well as because of his criticism of the craving for affluence. Besides the issue of Christians rejecting possessions for the sake of the poor, there was also the issue of salvation of the rich. It is worth recalling here a concrete quotation from the Bible: 'Indeed, it is easier for a camel to go through the eye of a needle than for someone who is rich to enter the kingdom of God' (Luke 18: 25). This issue, however, was not a matter of Gandhi's deep consideration.

⁴ In this context Dasgupta's remark (1996, 177) that 'Gandhi was also much ahead of his time in pointing out that not all kinds of preference-satisfaction necessarily contributed to human welfare' (emphasis added) sounds somewhat surprising.

While many economic problems were only vaguely touched upon by Gandhi, because of the originality of his beliefs it is worth mentioning them, even if in a somewhat trimmed-down version. The Indian paid attention to the significance of savings (both as regards the home budget and the funds of an organization or a company), he was very much against wastage and was extremely meticulous when it came to running the accounting books. Gandhi was reluctant to incur debts and he fought corruption. In his *Autobiography* he wrote that: '(...) a public worker should accept no costly gifts' (Gandhi 1940, III, 12), and in another passage he stated referred to '(...) the duty of a man of equipoise to act without desire for the fruit' (*ibid.*, IV, 6).

Gandhi was aware of the limitations of the labour market and even criticised the phenomenon of 'hidden unemployment'. He wrote that '[m]ore than one did the work of one, and many an important thing was no one's business at all' (*ibid.*, III, 14). He also spoke about tax injustices, especially in relation to people in the country. He tried to convince Christians that civil disobedience (including avoiding paying taxes for the sake of the country) is not an idea in opposition to the preaching of Jesus. He then undertook an interpretation of the parable from the Gospel according to Luke, which states '[g]ive unto to Caesar the things that are Caesar's and onto God the things that are God's' (Luke 20:25). Gandhi answered the critics who used these words to criticise his approach as follows:

Jesus omitted the direct question as it was a trap. As a matter of fact, it was not his duty to answer it. For that reason he wanted to see the coin with which the tax was paid. Then he replied with fervent scorn: How can you who trade in Caesarean coins and are thus reaping the benefits from the Caesar's government, refuse to pay taxes? All the sermons and all the workings of Jesus teach without a shadow of a doubt the rejection of cooperation, which includes absolute rejection of paying taxes. (Frèches 2009, 158–159)

Gandhi studied the New Testament carefully, which is why he did not analyse the passage from the Gospel of Luke in isolation from other teachings of Jesus. It should be added that apart from tax liabilities the passage covered the subject of one's attitude to the legal order. Christians who openly lived their beliefs would have had extreme difficulties functioning in the Roman Empire.

Gandhi also frequently praised honesty in trade. He did not favour exchange solely as a method of maximising profit. In his speeches he tried to instil in merchant groups the feeling of an intensified commitment, and he encouraged them to be honest and truthful in business contacts. He imposed this duty on Indians in his own country as well as abroad (he had in mind South Africa). One may also find liberal thinking in Gandhi's statements, e.g. in his opposition to the domestic customs barriers in India. Here he referred both to British colonial authorities as well as the local government. He even managed to convince administrative authorities to do away with customs in the city of Viramgam in the Gujarat state (Gandhi 1940, V, 3), which ought to be regarded as spreading *satyagraha*.

Gandhi on economics and ethics

In order to examine the issue of the relation between economics and ethics in Gandhi's thought, it ought to be stressed once more at the outset that the things he treasured were moral values. All analyses of economic activities or interpretations of economic life without the ethical reflection were, in his eyes, completely unjustified. Gandhi's approach to all economic issues was based on ethical considerations. He emphasised that both spheres are mutually inclusive. When economic concepts include ethical implications, then ethics must come down to earth and become 'good economics'. According to Gandhi ethics is not an easy exercise for philosophers, it has to be right for a simple economic activity with real economic consequences. Ethics is by nature a guideline for solving dilemmas in economic life (Dasgupta 1996, 6–7; Iyengar 2005, 7).

Gandhi's philosophy is tightly woven in the essence of ethics referring to the principle that our life came from another life and gives birth to another. We do not exist only for ourselves. In accordance with this rule a man should find himself in all other creatures (Schweitzer 1993, 188). This a priori excludes the term *homo æconomicus* and prevents us from viewing our economic action in the dimension that boils down only to effectiveness, profit and a strong specialisation, or collecting capital.

Ethics plays the key role in Gandhi's philosophy and economics is only a component of ethics. Ethics also regulates the principles referring to the common good. Here Gandhi did not go beyond the East Asian traditions. The Indian civilisation (like the civilisation of China and its derivatives: the civilisations of Japan and Korea) was created over thousands of years under the influence of communitarian, not individualistic, ethics. The Indian civilisation did have some characteristics of individualism, typical of Greek stoicism, as Hinduism allowed individuals who rejected the world and became ascetics to strive for their own salvation without worrying about the outside world and the society. Such individuals became self-sufficient, and focused on themselves. Their thinking was similar to the thinking of a modern individualist, except that they lived outside the society (Lal 2006, 158). Still, such attitudes were a distinct minority. It was the communal ethics that dominated the history of India. Thus, over and over again one comes back to the issue that Gandhi took from Ruskin: in the struggle between individualism and craving for the common good, it is the latter viewpoint that becomes superior. Judging from the perspective of values characteristic of western civilization, Gandhi's notion was in this case extreme. He wrote '(...) if I wanted to devote myself to the service of the community in this manner, I must relinquish the desire for children and wealth and live the life of a *vanaprastha* – of one retired from household cares' (Gandhi 1940, III, 7).

Gandhi's concept and India's paths of development

Understanding Gandhi's attitude helps in finding the relation between moral and material progress. The Indian leader did not agree with associating the real progress (including the economic one) with material progress, without any limitations. Societies which were focused only on materialism were headed sooner or later for self-destruction. Real progress entails moral progress as well, which is connected with man's spiritual changes.

Gandhi propagated India's own path of development of civilisation for India and its citizens, different from the English or American one. Analysis of his thinking helps to better understand why India did not follow the path of development of other countries of the West. Deepak Lal – an economist who is Indian in origin⁵ – noticed that at the time of their economic expansion other civilisations had to confront the dilemma of choosing a certain path of development: the first option was based on modernising Western experiences through the acceptance of material beliefs, together with technology serving the military and economic potential of the country, but without necessarily the acceptance of the Western cosmological beliefs. The second alternative was to be a 'snail', i.e. live in isolation in fear of modernisation which could undermine the ancient traditions. The third option was to attempt to find a middle way between tradition and modernity (Lal 2006, 165).

Marrying tradition with modernity was by no means easy in practice. Jawaharlal Nehru, the first Prime Minister of India, tried to realise such policy although it was not in accordance with the tradition of the Indian socio-economic system cultivated by Gandhi. The father of independent India repeated on numerous occasions that 'the good of the individual is contained in the good of all' (Gandhi 1940, IV, 18), which was a loud voice in favour of collectivism over individualism. Apart from that, Gandhi was not openly against the functioning of the caste system, which was the greatest obstacle to modernising India. The revolutionary solutions included in the Constitution of 1950 were a great success, attributable to Bhimrao Ramji Ambedkar rather than Gandhi. Ambedkar came from the lowest caste of the untouchables and took a direct and active part in the work on the constitution, Gandhi was murdered in January, 1948.

The central planning system, introduced during Nehru's governance through forced industrialisation, set in motion a huge military machine. India adopted a strategy of development based on the development of heavy industry (which Gandhi would not have approved of). It turned out ineffective and by the end of the 1960s the country was mired in stagnation, failing in its fight against poverty. Only in the 1980s was partial economic liberalisation started, but together with it

⁵ Lal's concepts concerning the ethical aspects of development are the subject of analysis in the next chapter.

a deficit in India's balance of payments became visible, together with a currency crisis and inflation. In 1991 India withdrew from central planning and began integration with the world economy. This process is still in progress but it seems irreversible. Without a doubt it has raised the indexes of economic growth in India (Lal 2006, 167). However, the pursuit of economic growth has resulted in great structural changes would undoubtedly arouse skepticism in Gandhi. According to George Orwell (1950, 103) '(...) his medievalist program was obviously not viable in a backward, starving, over-populated country'.⁶

According to most economists who deal with the theory of development, India should follow the path of China, and even make a bigger leap because of its symptoms of democracy. Political pluralism, however, may be an obstacle to India's development. The greatest problem for India to enter the path of balanced growth is the caste system. Another barrier is the still high percentage of illiterate citizens, as well as a general lack of education. Despite these difficulties, India has managed to develop a service sector, accountancy is flourishing, and there is a boom for new technologies, at least in a few leading states. In order to enter on the path of development for good there need to be deep changes in the sphere of informal institutions and rejection of culturally-rooted patterns of behaviour and traditional divisions (visible in the caste system). Then India can achieve an advantage over China, as its experience with democracy is richer (Beattie 2009, 285).

The most spectacular developments in the last decade have emerged in the two ancient Asian civilisations. India and China have quickly caught up after years of stagnation. In the new millennium they have become the two largest economies after the United States. Decision makers in these countries have realised that it is possible to modernise through joining global capitalism without the need to become western and 'lose one's soul'. It may be said that in some part this happened thanks to the thought and attitude of Gandhi, although he himself did not imagine that the modern economic system of India would look this way. Gandhi was convinced that capitalism and mechanisation lead to unemployment, poverty and inequality. He claimed that the goal of economy is full employment, making use of one's own resources, protection of the environment, and justice in the distribution of income. He did not believe that it could be provided by the communist system, which he felt was not able to survive as it was simply non-human (Chaturvedi, 2). For that reason only the choice of the third path could mean real development for India. It may be said that in the 21st century the country has functioned on principles very far from ideals propagated by its great leader.

⁶ Orwell, writing these words in 1949, was critical of some of Gandhi's actions but he appreciated his *Autobiography*. He wrote: 'At about the time when the *Autobiography* first appeared I remember reading its opening chapters in the ill-printed pages of some Indian newspaper. They made a good impression on me, which Gandhi himself at that time did not. The things that one associated with him — home-spun cloth, "soul forces" and vegetarianism — were unappealing' (Orwell 1950, 103).

Selected Ethical and Developmental Issues in the Works of Deepak Lal & Alan Beattie

Short presentation: authors and paper's purposes

This chapter aims to present the views of Deepak Lal and Alan Beattie as regards ethical issues and their impact – on moral values, customs, religion and corruption – on the development of the country, the cultural area and civilization.

Lal is a British economist of Indian origin. He has a degree in history at Delhi University, moreover, he graduated from philosophy and economics at Oxford University. He worked in the diplomatic corps of India but he committed himself to academic work. He was associated with Oxford and London Universities, as well as the University of California in Los Angeles, where as a professor he was at the helm of the *International Development Studies*. Lal regularly published articles in “Business Standard”. His views were taken from a powerful book with an intriguing title: *Reviving the Invisible Hand* (2006).¹

Alan Beattie has a flair for creating a whole from details, depicting the development of the world economy through concentration on chosen events and phenomena key for economic life. He has a degree in history at Oxford University and economics at Cambridge University. This combination is optimal, especially for an economic historian, as the discipline which he conducts is based on two keystones: history and economics. Beattie actively put his knowledge into practice in both of these disciplines – he was employed in the Bank of England and since 1998 he has been publishing works in the “Financial Times” on the subjects of world trade, globalisation and economic development.

Apart from the common threads present in the works of both of researchers, another premise justifying their joint treatment is the fact that Beattie, in his *False Economy. A Surprising Economic History of the World* (2009), referred in a direct way to some of the fundamental questions posed by Lal.

¹ In addition to this work Lal wrote, *inter alia*: *Labor and Poverty in Kenya, 1800–1980* (feat. Paul Collier); *Development Economics; Unintended Consequences. The Impact of Factor Endowments, Culture, and Politics on Long-Run Economic Performance; The Political Economy of Poverty, Equity and Growth. A Comparative Study* (feat. Hla Myint; *The Poverty of Development Economics* [www.independend.org; www.econ.ucla.edu/lal].

Lal's thought: morality, beliefs, religion and development²

Lal, in invoking the necessity of dealing with moral and religious issues and their influence on the development of the country, cites arguments expressed by anti-globalists, who criticise contemporary capitalism not so much because of the deepening poverty and inequality in the world but first of all due to its immorality. Such accusations were voiced already in the 19th and 20th century, but in the new millennium they gained strength (if only because of the global financial crisis). A fixed characteristic of capitalism is corruption, which is understood here in a very specific way, i.e. the robbing of the poor by the rich.³ This consequence of the growing concentration of economic strength also leads to the increase in political impact of the so-called business leaders. They are in charge of multinational corporations, perceived as negative symbols of global capitalism. These people are supposedly only interested in profit, making the rest of humanity dependent on fixed salaries and keeping them in this enslaved condition. Most of the consumer society is in a state of inertia, maintained by commercials and the media, and the welfare gained through globalization is possible only through destroying the natural environment. Considering that such accusations are voiced by western intellectuals, it is not surprising that the 'cultural nationalists' (Lal's term) from developing countries also claim that globalization and modernization suit only the material world, destroying the spiritual one. This dismal vision motivated Lal to ponder on the relationship between morality and capitalism. Do globalization and modernisation inevitably lead to westernisation? Are there any universal moral norms allowing for the evaluation of economic activities? Lal deals with these questions in order to, as he himself states, combat the fear of globalisation among some part of the society and the supporters of state intervention in economy (Lal 2006, 151).

Lal admits that morality is part of the informal limitations on the institutional infrastructure of a society. Among the more formal rules he names common law which he, after Friedrich August von Hayek, recognizes as the foundation of spontaneous order shaped without any well-thought-out project, and still introducing constraints on human actions (Lal 2006, 151; Hayek 1944).

Following the representatives of new institutional economics, he claims that both types of institutions – formal and informal – shape human nature. For this reason, as Lal aptly remarks, in accepting the motive of *homo oeconomicus* as an egoistic individual who is rational in character and aims at maximizing the usefulness (as a consumer) and profit (as an entrepreneur), it needs to be borne in mind that institutions hamper egoistic behaviours.

² The fragments devoted to Deepak Lal were originally prepared in cooperation with Paulina Matera. I am grateful to her for this contribution.

³ Other possible meanings and definitions of corruption are presented in chapter 9.

Lal associates the functioning of institutions with the appearance of transaction costs, understood as the costs of relations of exchange between people. If a man lived alone, he would not have any reason to limit his behaviour and actions. Limitations happen only with cooperation with other individuals. Lal differentiates between transaction costs connected with the effectiveness of the exchange (they include, *inter alia*, the costs of finding partners who would like to exchange and the costs of setting the prices and levels of demand and supply) as well as the costs of supervising opportunistic actions of economic subjects, i.e. the costs of executing the signed contracts. Lal, to a great extent, follows here the concept of Ronald Coase, who was the first one to define transaction costs as the costs of making use of the market mechanism – incurred as a consequence of negotiations, fairs, contracts, information flow and in order, via these processes, to reach the prices (Coase 1992, 715).⁴ In his work however Lal does not quote Coase. He bases his arguments on the views of Douglass North and Oliver Williamson, who emphasised the importance of such costs for the structure of the markets and economic development (North 1990, 27–35; North 1991, 98).

Lal's division of transaction costs into those connected with the effectiveness of exchange and the costs of supervision of the opportunistic actions of economic subjects leads him to the conclusion that moral norms have always been needed in a capitalist economy in order to curb the other type of transaction costs (Lal 2006, 153, 180). Apart from that, Lal also tries to research the influence on economic activities and the shaping of capitalism of both transaction costs and human's beliefs based on religion, that is material and beliefs and cosmological beliefs changed over time.

In ancient civilisations based on farming (Egypt, Mesopotamia, India, China) most of the basic rules from the stone age turned out to be useless. Contacts between people intensified, but transactions were rendered between strangers who never met again.⁵ The old mutual altruism characteristic of the stone age, waylaying the repetition of transactions, was no longer in force. However, in order to avoid the loss of mutual benefits from cooperation, farming civilizations formed defensive mechanisms against 'antisocial' behaviours. Lal draws attention to the fact that these 'moral laws' became part of 'religion', understood here in a special way – more as a lifestyle than a belief in God. The common feeling of shame or guilt (reinforced by religious practices) were the means through which 'moral laws' became rooted in tradition and culture. What is more, during the development of farming civilisations the instinct of exchange was broken down by

⁴ Ronald Coase's economics of transaction costs is covered widely by Janina Godłów-Legiędź (2010, 47–63).

⁵ The significance of the repetition of acts of exchange acts for the shaping of their form is also strongly emphasised by North (1990, ch. 2; 1991, 97–98) and Tullock (1985). See more: Godłów-Legiędź (2010).

the emergence of new institutions. Merchant activity was treated as necessary evil, even though it posed a threat to community ties. It also needs to be remembered that in many ancient civilisations, and in the Middle Ages, persons engaged in trade did not have a good reputation. Business contacts did not have a lasting character and the extent of the market was, with a few exceptions, limited. Lal claims that '[t]he material beliefs of the agrarian civilizations were thus not conducive to modern economic growth, whose major institutions can be summed up as capitalism' (*ibid.*, 155).

A great difference between Western Europe and other Euro-Asian civilisations came into being as a result of a change in material and cosmological beliefs, which were a consequence of two 'papal revolutions' – by Gregory I from the 6th century in relation to family issues and inheritance laws, and by Gregory VII from the 11th century in the field of ownership and institutional issues. These changes made it possible to introduce the legal and institutional conditions necessary for the formation of a market economy and moved the West onto a different economic path than other Euro-Asian civilisations. The medieval reforms sanctioned the primary human instinct of 'production and exchange' and paved the way for the dominance of individualism over community (*ibid.*, 156).

When it comes to the major Euro-Asian civilisations, the Chinese (and its derivatives – the Japanese and Korean) and Indian civilisations for years had been under a visible influence of communal ethics, not the individualistic approach, although Lal emphasised that even between these two civilisations there are certain differences in cosmological beliefs. There are some characteristics typical of individualism in Indian civilization, peculiar to Greek stoicism. Hinduism made it possible for individuals to choose their path of ascetics. An individual seeking salvation did not have to worry about the outside world and the society. This individual became self-sufficient. He or she was focused only on themselves. Their thinking is similar in shape to the thinking of a modern individualist, who lives outside the society. As regards the ancient Chinese civilization, it did not form such a type of individualism. Its most significant cosmological beliefs, included in Confucianism, may be manifested by the use of such terms as optimism, familism and bureaucratic authoritarianism. The interaction and influence of these features created social and political counterparts, like hierarchism, respect for rituals, or obedience (*ibid.*, 158). Actually, it needs to be remarked here that Confucius himself was critical of any tyranny. He told his followers that '[a]n oppressive government is more to be feared than a tiger' (Clements 2007, 35). Nevertheless, for a long time there had been a conviction that the Chinese path was impossible to reconcile with the universal Christian beliefs.

Lal compares these religions in order to find characteristics either contributing to their development or hindering it. There are a number of similarities between Christianity, Islam and Judaism, but he stresses that the most significant

distinguishing feature of Christianity is universalism. An important factor distinguishing Semitic monotheistic religions is their being egalitarian. Most of Euro-Asian religions have some form of hierarchy of social order. Among the Euro-Asian civilisations, only Semitic religions emphasise the equality of human souls. In this way there appears an *a priori* conviction among the believers that all the people are born equal (Lal 2006, 158).

Lal tries to prove that individualism was not an underlying feature of Christianity, although it started to form at the end of antiquity, and the intellectual breakthrough in this matter was the work of Saint Augustine *De civitate Dei*, in which he treated the antagonism of the City of God and the earthly state as an axis of human history (Piątkowski 2001, 97). Saint Augustine vividly distinguished between the actions of greedy earthly creatures focused on private ownership and those predestined to live in community in the City of God. According to Lal, the Augustinian idea survived until present. A mutation of 'the City of God' is eco-fundamentalism, which refers to the Christian conviction that humanity is evil and only living in harmony with nature can save it (Lal 2006, 159).

Lal claimed that before the Enlightenment philosophers began to replace the Biblical Eden with other references (especially to classical Greece or Rome) and God became an abstract idea. Paradoxically, it was then that a way was found to root morality as indispensable in the reduction of transaction costs in order to increase economic efficiency. The path was clearly paved by the Scottish philosopher David Hume, who claimed that morality is crucial in the control of human instincts of self-complacency, so as to gain profits from cooperation. Hume did not think it was necessary to base morality on belief in God or the brain, but rather on tradition, which played a crucial part in keeping society together as a cohesive whole. He argued that morality is based on the feelings of shame and guilt. Neither God nor the mind have to be called upon in order to justify certain customs. According to Lal, Hume's concept became the foundation of morality of the capitalist society in Victorian England. The concept was also favoured by Adam Smith, who believed that healthy ambition and personal desire should be combined with an emphatic conscience to support stability and social order. In *The Theory of Moral Sentiments* he emphasized that:

The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order or society. He is at all times willing, too, that the interest of this order or society should be sacrificed to the greater interest of the state or sovereignty, of which it is only a subordinate part. He should, therefore, be equally willing that all those inferior interests should be sacrificed to the greater interest of the universe, to the interest of that great society of all sensible and intelligent beings, of which God himself is immediate administrator and director. (Smith 1984, 152)

In Lal's opinion, such virtues as industriousness, discipline, frugality, self-help, and self-control had a secular character and did not stem directly from

the Christian tradition. As a conclusion he states: 'These Victorian virtues are today to be found more often among the burghers of Bombay and Shanghai than those of Wall Street or Hollywood' (Lal 2006, 162).

Another breakthrough, in Lal's opinion, in the formation of Western thought was the viewpoint of Friedrich Nietzsche, who saw the foundation of morality in secular 'values' and not Jewish-Christian 'virtues'. The death of God meant the death of morality and the death of truth. Nietzsche played the role of an immoralist and destroyer, convinced that happiness is only a privilege of a small elite. In accordance with the message of the hero of *Thus Spoke Zarathustra*, real happiness finds its place in the egoism of the rich and strong so the only contentment for the rest is to accept the bitter truth and become disillusioned. The efforts of plebeians to achieve happiness are all futile. In Nietzsche there is also the category of Above-Human, who at the moment of the death of God cannot show his weaknesses. He has to fight them, overcome his difficulties, make use of his greatness, and oppose the crowds of little men (Bauman 2009, 217). Acceptance of such an attitude, according to Lal, triggered the demoralization of Western society.

A great problem for modern human beings, especially after the trauma of the Second World War, was the loss of conviction that real faith exists (Lal 2006, 163). This is why the 1960s cultural revolution so easily changed Western family relations and created new standards of sexual behaviours. The collapse of traditional morality was supported by the growing entertainment industry, managing individuals' free time. In this way the usual brakes curbing egoistic behaviours, which classical liberals such as Hume and Smith treated as necessary for the creation of a good society, were removed.

The cosmological beliefs of the modern West are not coherent. In order to defend this thesis Lal refers to the philosophy of Alasdair MacIntyre, who thinks that modern Western thought is based on three mutually exclusive elements. The first stems from the Enlightenment and is based on perceiving individuals as capable of opposing outside social influences and limitations. It allows them to create themselves according to their own preferences. The second ingredient of Western self-awareness refers to the perception of an individual by other people. Here standards are based on acceptance of the criterion of material success, which is possible to achieve in the conditions of a bureaucratic and individualised market economy⁶. Finally, the third element of Western identity is connected with religious and moral norms. Its essence is openness to various values, often radically different (*ibid.*, 164). These three elements of self-awareness of the West are by no means coherent since there are no commonly accepted standards thanks to which the inevitable conflicts between them could be solved.

⁶ See chapter 2 – Veblen's reflections on the subject.

According to Lal, capitalism has always needed moral support to reduce the costs of transactions.⁷ The faith of Euro-Asian civilizations survived thanks to the moral code passed down from generation to generation. The West was the first one to step off the road as a consequence of the two papal revolutions and the rejection of communal thinking for the sake of individualism. These reforms in the Church also helped to adjust societies to market conditions and laws. A new institutional infrastructure appeared. Other Euro-Asian civilisations searched for a different path to overcome their military weakness without losing traditional values. Their greatest concern referred to whether modernisation would entail westernisation. Japan, and then India and China, proved that it was possible to adopt the materialism necessary for prosperity without the need to get rid of cosmological beliefs. In Lal's opinion the only ancient civilization that does not follow the path of modernization today is Islam. Islamic 'cultural nationalists' oppose globalisation capitalism and will not let it enter their countries (although, taking into account the cities in the United Arab Emirates, Qatar, Azerbaijan or Malaysia this is hard to believe). In Africa there is still a discrepancy between cosmological belief and materialism. There is still no clear indication whether the continent will take an active part in globalisation.

Beattie's thought: religion, corruption and development

Lal's thoughts propel us to pose a fundamental question – what factors determine development? Alan Beattie writes that it is not influenced by culture or religion. It is rather determined by people (Beattie 2009, 4). Beattie then dispels a number of stereotypes referring to Islamic religion, which supposedly has had a harmful influence on the development of Islamic states. Characteristics of Islam are surrendering to God's will and non-tolerance for usury – the primary element of modern market economy (Bukowski 2014). However, the warning against charging interest in the Koran is not as explicit as it is, e.g. in the Old Testament and Muslims know how to avoid strict rules using the term 'special tax' or 'penalty for default'. It needs to be remembered here that such words as *tariff*, *custom*, *risk* or *traffic* stem from, or are related to, Arabic.

The author of *False Economy* claims that it is difficult to find evidence proving that Islamic states develop slower than other countries. He invokes independent reports demonstrating that Islam is even beneficial for the dynamics of economic growth, which is borne out by the accomplishments of Malaysia or Indonesia (the greatest Islamic state in the world). He also reminds us of the phenomenon of the development of Arab civilisation in the Middle Ages. The empire, however,

⁷ This standpoint is in agreement with North's idea, who emphasized on numerous occasions the role of informal institutions in curbing transaction costs (1990; 1991; 2005).

just like ancient Rome, developed militarily and bureaucratically, not economically. Beattie emphasises on numerous occasions that if religion is to have any influence on development, it happens only rather through authority institutions and not through the very theology itself. Malaysia in recent decades has been developing faster than the Catholic Philippines or Buddhist Thailand not because it is an Islamic state, but because it entered the path of industrialisation attracting foreign direct investment and encouraging private entrepreneurs to engage in activity. As regards India's economic backwardness in relation to other countries, Beattie perceives that it not so much in Hinduism, but in the caste system which in fact was imprinted by the British, working according to the principle 'divide and rule'.

Beattie agrees with Max Weber (2010) in the aspect that Protestant ethics might have accelerated the development of capitalism, but it could also have been adopted by any society. There is also a lot of evidence that groups of a given denomination may have developed in different cultural conditions domineered by other religions. This is well portrayed if we look at the development of entrepreneurship of a number of religious minorities: the actions of the Jews in medieval Europe, the Indians in the post-colonial Eastern Africa, the Lebanese in Western Africa or the Chinese in South-East Asia. All of the minorities proved that they are capable of developing faster than the cultural or religious majority. Beattie frequently claims that: religion does not determine economic fate – Islamic states may grow in wealthy, some of them already have (Beattie 2009, 156). In this respect it is safer to follow Beattie than Lal. However, for the representatives of the West, the remarks of the latter are absolutely essential and worthy of further research.

Beattie in *False Economy* came back to one of the key questions posed by economists: why does it happen that some nations are rich and others are poor?⁸ In other words: in what ways did some of the cities, countries and societies get to the place where they are now? The author was interested in why some economies achieved success and others failed to do so, and whether it is possible to relate richness and poverty to one cultural area. Beattie alerts us to the fact that the path which any given country followed had not been determined in advance. All of the societies had a choice and their choice(s) decided on their further development. The author argues that history is determined not so much by geography, terrain, water supplies, natural resources, culture, religion or chance. He explains that people shape their own destiny and shows in what way the decisions taken determined their future (*ibid.*, 2–4). Beattie tried to include diverse

⁸ After Beattie, the same question has been posed in recent years by Daron Acemoglu and James A. Robinson (2013) in an exquisite work *Why Nations Fail. The Origins of Power, Prosperity and Poverty*, and before Beattie it was posed by, *inter alia*, Rondo Cameron (1989), David Landes (1998) or Angus Maddison (2000), who formulated the same question. See more in the references.

economic aspects of culture, apart from politics or religion, referring to the concept of *path dependence*.⁹

Beattie argues that the economy, and especially trade, develops best when it loses its national identity. He invokes here the great development of the medieval hansas (German, Flemish and French) and the role of the great trade companies (especially British and Dutch). Technical progress also has a great impact on the acceleration of the trade exchange, and just as the building of canals, rail and telephone networks changed the face of trade in the 19th century, so too does the Internet today. What is needed, however, is the time to adopt new inventions or solutions. Beattie draws attention to the great importance of containerization in modern trade – *cargo* is becoming faster and cheaper when importing tons of goods from the Asian Factory, as he calls the leading economies of South-East Asia (including China). Why does Africa not follow the same path? Beattie says that it is because the continent does not possess infrastructure, roads, certain connections, and contractors do not trust each other. There is not enough trade knowledge on the continent either. To prove this, he invokes the standpoint of one of the Ugandan entrepreneurs providing British shops with coffee. He claims that before he started to roast coffee farmers selling him grains had no idea what they were used for. They were sure that he delivered goods to partisans fighting in the Democratic Republic of Congo (*ibid.*, 213).

With every step he takes, Beattie tries to dispose of widespread judgments. He comes back to the problem which has interested both politicians and economists for at least several decades: does indeed corruption in every case have a negative influence on the development of the country? Despite the argumentation in favour of a negative answer to this question (see e.g. Huntington 1968; Leff 1964), it is nevertheless commonly perceived as one of the causes of impoverishment of a country. Why is it then that citizens of corruption-eaten Indonesia have, after the long rule of Hadji Mohamed Suharto, reached 3 thousand USD *per capita*, and Tanzanians after the rule of honest Julius Nyerere, treated as semi-saint have, have only on average 1 thousand dollars per head?

Beattie agrees with the statement that competition curbs corruption (see: Acemoglu, Verdier 2000), but before it does so, more often than not it is the corruption that protects competition. It is said that if corruption is bad for efficiency, why then does India attract fewer investors than China, although in both countries corruption is commonplace? According to the author of *False Economy*, when it comes to China it is known who takes the bribe there – it is the ruling party, while in India many want to be bribed. The Nobel Laureate Shiva Naipaul was not much surprised by the fact that corruption exists in India – he was a realist. He got angry however when, after bribing someone, nothing happened. In India, after receiving 'the envelope', decision makers just go to sleep (Naipaul 1986, 269).

⁹ For more, see: Dzionek-Kozłowska (2011).

Beattie analyses the phenomenon of Indonesia as well. He claims that Suharto, trying to achieve financial stability and good macroeconomic results at any cost, managed to attract direct foreign investment. Indeed, he created a system of nepotism which verged on the absurd, but what he expected from his relatives in return was profit. The system persevered for three decades. A similar system functioned in South Korea, where chaebols focused on export activity, strongly connecting the Korean economy with global economics. Beattie claims that if corruption is stable and predictable enough, it becomes a certain kind of tax (Beattie 2009, 230). The analysed cases prove that in countries where corruption is centralised (China, Indonesia) the development was faster, and in countries where it was disorganised it became a serious problem (India or the Philippines under the rule of Ferdinand Marcos, where it was necessary to pay both the president's men and representatives of parliament).

What Beattie puts at the other extreme is honest action. Under the rule of law-abiding Nyerere Tanzania turned into a socialist monstrosity, with price regulation, rationing (limitation) of foreign trade, and non-effective state enterprises. The honest ruler of Tanzania raised a team of socialistic bureaucrats and nationalised his own people. Yet in the 19th century it was in Zanzibar that the greatest number of cloves were produced in the world. One of the few African countries where corruption did not develop that enormously is still one of the poorest in Sub-Saharan Africa. This example seems to be a perfect confirmation of Huntington's famous theses that: '[i]n terms of economic growth, the only thing worse than a society with a rigid, over-centralised, dishonest bureaucracy is one with a rigid, over-centralised, honest bureaucracy' (Huntington 1968, 386). Beattie still encourages Africans to reform their institutions in order to curb corruption, although he is well aware of the fact that it is part of the system. In some cases it does more harm, in other instances it does less. It depends on its character. Morally it is wrong, but regrettably this standpoint is shared only by few decision makers.¹⁰

Beattie admits in the end that his book is not a detailed instruction of economic policy, but that some rules are more than useful for governments: do not cut off your own economy from the rest of the world; plan the development of the cities, but do not give them too much power in order not to lead to full decentralisation; do not maintain obsessive faith in the meaning of religion; do not justify power which ignores the right of ownership and the rule of law; learn from the examples of the states which wasted their resources because they did not know how to use them for the development of their own economic potential. As regards the poor countries – don't worry so much about trade policy, worry more about customs procedures; focus on fighting destructive corruption, but worry less about the predictable and moderate bribery; be alert when your

¹⁰ See more about corruption in chapter 9.

country enters the wrong path in order and make it leave it as soon as possible (Beattie 2009, 300). According to Beattie, when the world economy is expanding all the time, it is more integrated and multi-dimensional, and it is not true that there are more difficulties with entering the right path of development. Indeed it is rather the opposite – there appear more and more examples of winning countries. Globalisation increases potential possibilities of countries governed by effective politicians, but at the same time it makes the gap between the successful and the less successful grow larger. And Beattie concludes by saying that the experience of history should lead us to make the world better and change the fate of societies.

False Economy does away with the traditional chronological narration. It in turn focuses on particular sectors of the world economy and conducts the ever so popular in Western science *case study*. What is important for the author is not so much the presentation of the full picture, but rather the explanation of the dependence and discordance, success and failure, prosperity and crisis, the emergence of the centre and periphery. Beattie manages to find arguments in favour of the aim of history as a science. He strongly and passionately argues that it may provide some generalisations, it may explain some phenomena, it may, unlike Leo Tolstoy's view, uncover some causes or at least help in discovering them. Tolstoy wrote that history presents only a devoid-of-expression consequence of non-explained events and thus it does not discover the causes. He did not claim, however, that history is an abstract science, but he argued that it does not use own concepts. In Isaiah Berlin's opinion – a deep critic of Tolstoy's thought – it would destroy history itself (Berlin 1953, 39–40). The reading of Beattie's work calls for a review of such a stand. It encourages readers to take up further examination into the importance of history in modern science.

Brief conclusions. Common threads in the thought of Lal and Beattie

It is difficult to compare Lal's concepts and Beattie's interpretations, as they are written from different angles. Lal comes across as a researcher of the evolution of thought (including thought), while Beattie is an expert economic historian. Lal often refers to Christian ideas, Indian traditions, and the thought of Hume, Smith, or North. Beattie at the same time refers to historical events from ancient Rome, the beginnings of the United States, or he examines the developing countries at the time of decolonisation. Both economists examine similar themes such as: the influence of religion on countries' development (Beattie) or on the changes in capitalism (Lal). Both of them pondered the significance of corruption and they both dispelled the myth of its destructive character. A fundamental difference in their opinions manifested itself in the use of different accents in

proving their hypotheses. Lal concentrated on looking for changes in informal institutions in given epochs, he separated transaction costs, and gave meaning to material and cosmological beliefs of given civilizations. He proved then that religion, especially the traditions stemming from it, are significant for development. Beattie found answers to similar questions by judging particular policies and formal institutions. He argued that individuals determine development and shape institutions. In his new book in 2012, in referring to the global financial crisis which destabilised the world economy, he warned: 'Too often, governments have been weak-willed or wrong, and international institutions have not had the power to compensate for them' (Beattie 2012, 77). The decisions of the leaders from the times of the last depression usually had short-term effects, so it seems interesting what influence the crisis will have on the formation of new beliefs and principles by citizens of different civilizations in the era of *Facebook* and *Twitter*. This is a great interpretation task for Lal.

Economics as a Positive Science

Reflections after Reading Tomáš Sedláček's

Economics of Good and Evil

*Belief may be no more, in the end,
than a source of energy,
like a battery
which one clips into an idea to make it run.*
(Coetzee 2003, 42)

Almost from the very moment economics became an independent science one of its fundamental methodological problems has been the following: are economists, when building their theoretical concepts, able to confine themselves to describing and analysing facts pertaining to economic life only, without evaluating them? Is it possible to conduct economics without value judgments, by dealing with the economic reality instead? In other words – is economics a positive science? Although the postulate of avoiding value judgments has been voiced ever louder since the end of the 19th century, and its ‘implementation’ has eventually become the criterion of scientificity of economic theories, the issue still remains a subject of debate, or even disputes.

An incredibly loud voice on the subject is *Economics of Good and Evil* by the Czech economist Tomáš Sedláček, who puts forward a thesis that ‘all of economics is, in the end, economics of good and evil’ (Sedláček 2011), and – what follows – it is full to the brim with value judgments. It is evil in itself, and contrary to the conviction of most mainstream economists, it is a normative science.

This chapter is devoted to an analysis of Sedláček’s argumentation, confronting his standpoint with the approach of other researchers, and evaluating to what extent his approach may be attractive for economists today.

Positive economics and value judgments: evolution of the approaches

When discussing positive and normative economics, the thesis known as ‘Hume’s guillotine’ is assumed as the starting point. This term refers to the idea

David Hume's put forth in *Treatise of Human Nature* (1739–1740), the essence of which is the statement that descriptive judgments about facts ('is' or 'is not' statements) do not allow for the introduction of any judgments about values. They do not allow for the formulation of statements such as *ought to* or *ought not to* (Hume 1963, 259–260).¹ Adopting such a viewpoint leads to the conclusion that distinguishing between normative and positive economics is not only legitimate, but even necessary.

The term *positive economics* emerged in the discussions about methodology much later. The very name was introduced by John Neville Keynes in *The Scope and Method of Economic Science*, published in 1891. The work was soon acknowledged as the official conception of the methodology shaping at that time the neoclassical paradigm. It became as well a symbol of the end of an ongoing conflict (almost a decade) known as the *Methodenstreit* ('battle of methods').² The work by J.N. Keynes was commonly treated as the methodological complementation of Marshall's *Principles of Economics* published half a year before – the work that became the cornerstone of neoclassical economics. J.N. Keynes himself (1891, 34–35) used the term *positive economics* to differentiate between the approach based on searching for knowledge about facts – knowledge about 'what is', and two other ones, i.e. the craving to determine the criteria allowing for settlement of what 'should be' (*normative economics*), and a kind of applied economics that involved a presentation of specific methods for achieving set goals (*the art of economics*). It needs to be mentioned that Keynes realised that the concept of normative economics might also be treated as a branch of ethics (the ethics of political economics). However, it is essential to note that despite those doubts he kept his division and, apart from gaining knowledge about economic life in the frame of economics, he also found room for the presentation of solutions to practical economic problems as well as ethics-related deliberations. The classification by Keynes was actually a broadening of the earlier division into the *science* and the *art* of political economy,³ which had shaped political discussions on the subject for almost the entire 19th century (see Senior 1827, 1836; Mill 1844; Cairnes 1875).⁴ As a later

¹ The expression 'Hume's guillotine' was coined in the second half of the 20th century by Max Black (1964, 166). For other possible interpretations of the concept, see: Makowski 2011, 317–334; Pietrzak 2010, 24–44).

² The *Methodenstreit* was carried out mainly in the environment of German speaking economists. Its main participants were on the one hand the representatives of the German historical school, and on the other – representatives of the Austrian school. See Hutchison (1973, 15–31) for more details on the debate.

³ This distinction by J.N. Keynes was further presented in chapter 3.

⁴ Still, it needs to be stressed that the differentiation by Senior is sometimes boiled down to distinguishing between positive and normative economics, which leads to blurring the difference between setting the aims (*normative economics*) and the means (*art*). It is puzzling that such simplifications are found in, *inter alia*, *The Methodology of Economics* of Mark Blaug (1992, ch. V). Senior's outlook is presented further in chapter 3.

'incarnation' of this categorization may be seen the separation of pure economics from applied economics popularized by the representatives of the mathematical school led by Leon Walras, for whom this differentiation was of such great importance that he arranged the structure of his work to it.⁵

Both classifications included the conviction that economics is a scientific discipline and should confine itself to gaining knowledge about facts, without the researchers formulating evaluations or value judgments. In this way an ideal of scientific objectivism emerged, the establishment of which was shaped by the attitude of economists themselves. A visible example of this can be seen in the approach of Marshall, who was a declared supporter and advocate of conducting economics as a positive science. The separation of positive and normative economics was, according to Marshall unacceptable, as the very word 'science' automatically meant for him that it is, in the Keynesian sense, positive.⁶

An additional impulse for the strengthening of this viewpoint in the 20th century was the development of logical positivism and the concept of scientific cognition based on this approach. The economists remaining under its influence, such as Lionel Robbins (1932 [1946], ch. IV) or Ludwig von Mises (2007, 743–745) may be referred to as advocates of 'extreme neutrality' (Davis 2005, 191–196). A certain apogee of the attempts to implement this doctrine was the striving to create the welfare economics independent of value judgements (new welfare economics).

Among the main advocates of conducting economics as a positive science one must mention Milton Friedman, although it needs to be emphasized that in his renowned essay *Methodology of Positive Economics* he did not in fact discuss the very possibility of the creation of an economic theory free from value judgments, simply assuming that it is possible and that '[p]ositive economics is in principle independent of any particular ethical position or normative judgments' (Friedman [1953] 1970, 4).⁷

The scholar who contributed to the greatest extent to the development of the model of a science that would be neutral in relation to the competing normative systems was Max Weber, who is often considered the author of the idea of science free from value judgements (*Wertfreiheit*). Taking the above into account, at first glance it may seem surprising that in his deliberations he emphasized that researchers are never able to fully liberate themselves from cultural, ideological

⁵ The first and undoubtedly the most famous part is *The Elements of Pure Economics, or the Theory of Social Wealth* (1874–1877). The second one, published two decades later, was entitled *Studies in Social Economics* (1896), and the third, which as the author intended was the crowning of the whole cycle was *Studies in Applied Economics* (1898). English translations of the two last parts of the triptych were not published until the 21st century.

⁶ Marshall's position was presented further in chapter 3.

⁷ The very legitimacy of referring to Friedman's position as postulating the conduct of positive economics is a disputable issue (see McCloskey 1989, 226; Mäki 2003; 2009b, 63; 2009c, 111–112).

or political influences (Weber 2012). At the same time, however, he clearly indicated that statements referring to facts differ to a great extent from statements referring to values, and that scientific research cannot settle the matter of the authenticity of the latter. This does not mean, though, that representatives of social sciences should at all costs shun involvement in discussions about values. On the contrary, they can or even ought to take part in them. Thanks to such discussions it is possible to capture and analyse the norms that are significant for particular stages in the development of social relations, which in turn makes it possible to, *inter alia*, evaluate their inner integrity, the consistency in their implementation, and finally, to determine to what degree those judgments influence the goals which we want to achieve (*ibid.*). It may then be assumed that, as Mark Blaug clearly emphasized when discussing Weber's concept, discussions about values are an indispensable element of attempts to conduct science in as objective a way as possible, since these debates create greater chances for capturing the normative elements underlying the concepts created by scientists (Blaug 1992, 116–117, 131, 133–134).

The introduction by Ernest Nagel of the differentiation between *characterizing* and *appraising* value judgments also contributed to the systematisation of the deliberations over them. This classification allows for the separation, on analytical grounds, of the decisions connected with the very choice of the subject of study,⁸ the aim and methods of conducting it, and the criteria applied to the assessment of the findings (*characterizing* value judgments) from those evaluations which are merely opinions on the topic of certain phenomena, processes, attitudes, behaviours etc. (*appraising* value judgments). Nagel expressed his conviction that although we are not able to eliminate the first type of judgments, we are able to get rid of judgments of the second type (Nagel 1970, 415–430).

At the other end of the spectrum of the viewpoints articulated when discussing the possibility of conducting economics as a positive science, one can put the approaches of Gunnar Myrdal, Robert Heilbroner and Deirdre McCloskey. Among these three the most radical stand was taken by Myrdal, who claimed that the distinction between the activity referred to as positive economics and normative economics is simply implausible, and that '[a] disinterested social science has never existed and, for logical reasons, cannot exist' (Myrdal 1958, 1–2; see also [1930] 1990). Based on the fact that every theoretical concept is grounded on consciously or subconsciously accepted subjective premises, which are the derivative of the researcher's view of the world, Myrdal drew the conclusion that striving to conduct positive economics is doomed in advance to failure. On account of the impossibility of attaining scientific objectivism, he appealed to economists to, instead of making futile attempts to free themselves from the chains of their

⁸ Blaug uses here the expression 'methodological judgements'.

own preconceptions, declare from the very beginning the values – political views, ethical norms, religious beliefs etc. – which they favour (Myrdal 1958, 58).⁹

Doubts pertaining to the chances of economists and representatives of other social sciences to achieve a neutral, independent attitude to the subject of their research were shared also by Heilbroner. Despite the similar starting point however, he did not endeavour to establish a requirement that economists should declare openly their views of the world. The solution recommended by him was in fact similar to that indicated by Weber or Blaug. Heilbroner argued that the indispensable element for the development of science is not so much the readiness on the part of researchers to openly present their own values, but rather ‘exposing itself to informed criticism at every stage of its inquiry, engaging in painful self-scrutiny with regard to its premises, experiments, reasoning, and conclusions.’ (Heilbroner 1973, 142; see also Heilbroner 1983).

As regards McCloskey one may notice a radical change in viewpoints – from the initially accepted logical positivism, with its division into judgments about facts and value judgments, to a definite rejection or even condemnation of this approach (McCloskey 1989). In one of her last works, writing about the virtues and sins of economics, McCloskey stated that (2002, 32–33):

Economists believe that scientific and ethical questions are distinct, the one ‘positive’ and the other ‘normative’, and that real scientists ought to (hmm...) stick to the positive.

And later, with her characteristic sarcasm, she added:

I know it’s hard to believe, but most economists really do think that the positive/normative distinction lets them out of any reflection on ethics.

While agreeing at the same time with the assessment of Heilbroner and Myrdal, McCloskey acknowledged that the key to guaranteeing a high quality of scientific research is not the research method itself, openness to criticism, or readiness to declare one’s views of the world. The most significant matter is the very attitude of the researchers themselves – ‘[g]ood science, like other good human behaviour, depends on virtues, on human character’ (McCloskey 2011).

In closing this general presentation it is worth noting that in the reflections on the role of value judgments one may indicate two perspectives from which this issue is presented. The first of the perspectives, drawn directly from Hume’s essay, deals with the relation between theory and practice – the use of knowledge about facts occurring in the economy and the model (treated as

⁹ In this context the declarations of McCloskey, who openly calls herself a ‘post-modern, quantitative, free-market, feminist, Episcopalian, Midwestern, gender-crossing, literary woman’ may be understood as an answer to the calling of Myrdal. This type of position, that is the open declarations of one’s own world view, been gaining in popularity in recent years (see Klein 2006).

the proper one) of the relationship between economic variables to solving real problems. From this point of view, talking about the avoidance of value judgments means actually pointing to the logical fallacy of drawing solution of practical problems directly from theoretical concepts.¹⁰ With such an approach the differentiation between positive economics (facts) and normative economics (values) is justified, yet the question whether and to what extent we are able to gain knowledge about these facts and capture the relationships between them remains disputable.

From this review of perspectives it follows that the postulate of avoiding value judgments may be understood differently – as a call for researchers to adopt the most neutral, devoid of all prejudices, and objective attitude to the subject of their research. In this case the same postulate is of a normative character, since it is an indication of a certain ideal which the researchers may, or should, strive for. It is an indication of a given model which one may, or should, strive for, while and at the same time being aware that its achievement – totally freeing the researcher from the sphere of values – is impossible.

Sedláček on value judgments in economics

Against this background, how does Sedláček's concept present itself? Before answering to this question it needs to be stressed that *Economics of Good and Evil* is not a methodological treatise. However, methodological issues are dealt with in the book. Moreover, if we judge things from the perspective of the structure of the book, they seem to play the lead role, while at the same time they are not – as the author himself admits – treated in an entirely systematic way (Sedláček 2011, *Introduction*). It would thus be hard to compare Sedláček's work to the treatises by J.N. Keynes, Blaug or Weber. Nevertheless, the opinions and remarks presented on the pages of Sedláček's book deserve attention, because the work aptly indicates certain far-reaching consequences and deficiencies of the paradigm domineering in modern economics.¹¹

Sedláček firmly supports these authors who claim that economics is not a science independent of valuation. He indicates that despite the common approach of an ideal scientific attitude avoiding value judgments, the theory of economics

¹⁰ This type of viewpoint is referred to as the 'orthodox position' (Klappholtz 1964).

¹¹ This paradigm is frequently referred to as neo-classicist. However, the expressions 'neo-classicist economics' and 'the neo-classicist paradigm' are today abused to such an extent that their use may lead to a serious ambiguity. This confusion at the turn of the 21st century was addressed by David C. Colander (2000, 127–143) who suggested engaging in a kind of 'terminasia', that is rejecting the expression completely. Up until now Colander's call has not been adhered to. However, a positive consequence of it is the undertaking by authors of attempts to specify what they mean when referring to neo-classicist economics.

does not confine itself only to the description of reality with the use of sentences like *is/is not*. In his book he pays attention to at least two reasons which lead to such a state of affairs.

One of the barriers to conducting economics as a positive science is an element highlighted by most of the authors previously cited. What I have in mind here is the difficulty in freeing the researchers from adopting certain assumptions which are commonly approved of at a given stage of the development of the theory of economics, or are considered to be sporadically questioned goals of economic activity. The most basic and also the almost commonly accepted judgments in economics include, according to Sedláček: effectiveness, high competitiveness, low unemployment, low inflation, or a high rate of economic growth (Sedláček 2011, *Introduction*, ch. 14). While the rejection of such values is not impossible, the second of the problems indicated by Sedláček has a truly fundamental dimension, impinging even the legitimacy of undertaking any scientific activity. He states that ‘facts and “objective reality” are fuzzy’ (*ibid.*) and justifies this controversial opinion by demonstrating that our judgments of economic reality are to a great extent a derivative of the theories through which we perceive this reality.¹² For that reason we frequently experience a situation when ‘economists using the same data sets, the same statistics, derive very different conclusions’ (*ibid.*). The choice of the adopted interpretation structure is influenced to a great degree by the accepted system of values.

Models,’ he states (*ibid.*), ‘are therefore often accepted not on the basis of conformity to reality (none of them are realistic) but on the basis of harmony with a concept of the world, a sort of rhyme to a worldview, of how we believe or (often) want to believe. Even positive (meaning descriptive) models are, at their base, normative. In this regard, economics is also a faith – in axioms that are unproven, but which we must believe.

In this context Sedláček’s comparison of economic models to myths or parables becomes a little less surprising.¹³

At this point it needs to be noted that questioning the possibility of obtaining objective knowledge about reality not only inevitably leads to undermining the truthfulness of all types of value judgments (both characterizing and appraising), but also to discrediting the possibility of introducing *is/is not* statements. If then we are unable to gain objective knowledge about facts, then the differentiation between positive and normative economics loses its *raison d’être*. It also becomes problematic to refer to any theories when solving real economic problems.

¹² Sedláček’s viewpoint is similar to Hayek’s approach (1948b). It may also be seen as a symptom of methodological constructivism.

¹³ Judging by the state of development of modern economics a similar comparison was used also by Robert H. Nelson (2001) and Roger E. Backhouse (2010).

Here the question arises how legitimate it is to conduct a scientific activity understood as an initiative which aims at gaining a fuller view and better understanding of the reality. Despite the radicalism of his standpoint, Sedláček does not explicitly question involvement in scientific research. He argues, however, that economists 'should seek, discover, and talk about their own values' in order to gain greater awareness of the limitations stemming from their acceptance. A similar role would also be played by referring to the very roots of economic notions – the analysis of evolution of the concepts of which economists make use of. Thanks to that it may be easier to see 'what beliefs are "behind the scenes", ideas that have often become the dominant yet unspoken assumptions in our theories' (*ibid.*, Introduction). In view of the above, the act of marginalizing ethical and historical perspective by economists is, in Sedláček's eyes, a great mistake. It needs to be noted that such postulates are convergent with the suggestions of Weber, Blaug and Heilbroner.

Conclusions

The publishing success of Sedláček's book¹⁴ is puzzling, even more so if we take into account that this work deals mainly with the history of economic thought, the relations between the theory of economics, ethics, and the methodology of economics. The issues in question are generally referred to as difficult and – what is worse – they do not have a great significance from the point of view of today's economic problems. Why then is there such a great interest in his book? It seems that apart from the qualities of the author's very writing, his easy noticeable erudition and an abundance of references, the success of the book may be explained by the poor condition of the world economy too. In times of the worsening economic situation – which we have been experiencing since the beginning of the financial crisis in 2007 – economists, economic politicians as well as other participants in economic life are more receptive to concepts beyond the commonly accepted paradigm in the theory of economics. The economic crisis is viewed by many as a symbol of the weakness of the theories on which economic policy was based prior to the collapse of the economic situation.¹⁵ In the meantime, Sedláček voices his thesis in a compelling way which is

¹⁴ The book was published for the first time in 2009 in the Czech Republic and Slovakia and became a bestseller (over 50 thousands books sold). In 2011 an extended and completed English version came out (Oxford University Press edition), thanks to which it gained international fame. Until now *Economics of Good and Evil* has been translated into Polish, Hungarian, Russian, German, French, Italian, Spanish, Turkish, Romanian, Dutch, Korean and Chinese.

¹⁵ Two of the most glaring historical examples of this phenomenon are the crisis of Marshall's economics and the triumph of Keynesian economics after the Great Depression, and the collapse of Keynesian economics in the time of the economic crisis of the 1970s.

in opposition to the mainstream economic approach. Simplifying it somewhat, it may be acknowledged that the success of his book is in a way a consequence of the economic crisis.

At the same time it has to be stressed that Sedláček is not alone in criticising the mainstream. A critical approach is also adopted by a great number of other authors, and particularly explicit voices are of those who pointed out the flaws of the orthodox approach much earlier. It may even be assumed that for some time now we have been experiencing the heyday of trends which earlier were either beyond or on the fringes of orthodox economics. What I have in mind here is first of all the new institutional economics, the Austrian school, evolutionary economics and behavioural economics.

Many researchers stress, just like Sedláček, the benefits of embracing economic issues in a historical perspective, indicating at the same time the need to take into consideration ethical aspects of economic life. Clearly it is impossible to predict the direction of the development of the theory of economics or, even more so, the direction of the changes of economic policy. However, the present economic crisis is a chance to deepen our reflections on the methods of conducting economics, the content-related issues of the developed concepts, as well as the goals of the individuals or groups involved in the scientific activity.

Zygmunt Bauman's Ethical Warnings in the Area of Economics The Third Millennium's Perspective

Presentation of the author

Zygmunt Bauman is not only a sociologist and philosopher renowned in the world of science, he is also an authority for those interested in the phenomenon of globalization. He is particularly inquisitive about how the modern economic and political changes influence the life of societies. By pulling a man out of the machine of globalisation, he evinces sensitivity, which appeals to a great many opponents of the modern reality. For that reason, alter-globalists treat his works as the Bible. His latest publications, written in great language, often in the form of essays, inspire next generations – including the youngest practitioners of science (Smoleński 2005).

At present Bauman writes books in English. The sociologist, up to the year 1968, lectured at Warsaw University, however, as he was forced by the communist authorities to flee the country, he has been related to Leeds University all his scientific life. His output comprises around 50 books, including the most important ones such as (bestsellers most of the time): *Modernity and the Holocaust*; *Postmodernity and its Discontents*; *Globalization: the Human Consequences*; *Together, Apart*; *Wasted Lives: Modernity and Its Outcasts*; *Liquid Modernity*; *Liquid Life*; *Liquid Fear*; *The Art of Life* or the recently published – and greatly personal work – *This is not a Diary*.

Modern angst

Trying to find the leading scientific trend in the newest compilations by Bauman, there is a visible focus on the 'fears' which have accompanied man since the beginning of civilization and which, however, have never been that greatly exposed and articulated in such a direct way. In the world of modernity and uncertain times in our 'liquid' life there are more and more threats and fears connected

with them. He frequently tries to indicate how to prevent them and how to act in order not to feel the 'wastes' of postmodernity.

The sociologist tries to define what fear actually is. Among a number of various interpretations there is an interesting term which says that it is the uncertainty stemming from a lack of knowledge about a threat and what actions should be taken (Bauman 2008, 6).¹ We receive detailed information about what fears look like in the world of postmodernity – how they differ from previous epochs. Remarks by Bauman in the field are surprising: there are fears in every epoch but today they are permanent and an escape from them is doomed to failure. Among the three main types of fears there are those that pose a threat to our bodies and wealth, those which disrupt social order, and those which threaten our position in the world as well as our place in the social hierarchy (*ibid.*, 9). Citing Jacques Attala, Bauman argues that today's threats are like ice bergs: they take unawares, emerge in the least expected moment, generate panic attacks and are all-embracing – they affect almost every sphere of our life. They embrace a number of dimensions: financial (connected with the almost unlimited access to bank loans and the easiness of use of credit cards); technological (e.g. the millennium bug, new viruses attacking our computers); ecological (threats connected with global warming); medical (from the pandemic of bird/swine/goat flu to the need for cyclical control of blood pressure, blood sugar levels and cholesterol); nuclear (greatly abstract for most people on earth, still emerging very often); terrorist (the issues of safety at airports) and finally social (the fear of collapse of law and order, especially in times of natural disasters) (*ibid.*, 25). Bauman does not forget about the positive aspect of fear. It protects us against total destruction, imposing some sort of common sense in the insensible world. Paradoxically, at times it induces reasonable actions.

Among Bauman's fears and threats there often emerge economic threads and the globalization process which with both its causes and effects is inextricably linked with the functioning of the world economy. That is why it is worth attempting to confront the views of the renowned sociologist with the views of other researchers, including economists. Admittedly, Bauman does not profess to be an expert in the field of economics, still, at the same time he looks for advice 'to those who say that they are' and are treated as such (2012, 271). What we need to add in the first place is that the collection of economists' views cited by Bauman is very selective and one-sided; it has strong ideological tones. Despite this, it is worth investigating his visions warning us against further modern threats. We cannot give in to each of his argumentations, yet we must not disregard his opinions that help to comprehend the times of global liquid modernity.

¹ Initially I used Polish translations of Bauman's works, however, the quotations were taken directly from the original English publications. For the sake of reference, in the bibliography there are both Polish and English titles of the books.

In the chapter a few significant spheres strongly connected with economic aspects that Bauman analyses have been singled out. We will in turn look closely at the modern importance of consumerism highlighting the issue of wastage; we will refer to the problem of inequality among societies; we will try and understand the causes and effects of the modern global financial crisis, while not evading the 'heterodox' threads such as happiness. For that reason an economist may easily derive something from Bauman's analyses, not so much obtaining another variable for the model, rather being obliged to look for counter arguments for the subjective interpretation of the economic environment in the third millennium.

The outcasts

Great concern about the fate of the modern global society, though overwhelmingly pessimistic, is presented by Bauman in the work *Wasted Lives: Modernity and Its Outcasts*. He is interested in both commodity waste and human waste. No connection between the two is only ostensible. That is why next to the disregarded nations or social groups, asylum-seekers, immigrants, the unemployed or sufferers from depression, in the book there is 'regular rubbish', used products or information that nobody remembers. 'The revenge' of material waste manifests itself in the global ecological threat and indirectly in the changes in the attitude of societies to the goods flooding the markets. Bauman warns that our planet is filled to the brim, and further economic progress, mass production and permanent modernization will lead to the inundation of 'wasted humans'.

An extremely controversial thesis of Bauman is that it is economic progress and globalisation that generate the production of a greater and greater number of 'wasted humans'. When it comes to absolute numbers, it is undoubtedly an important remark, however, considering the percentage of people in the modern world that are useless and comparing that to the 19th and 20th centuries, it is impossible to measure. Even if we demonstrate that the level of unemployment was lower in previous times (and by no means that was a rule), we would then have to compare the working conditions of workers and managers. Is the stress accompanying us at present and resulting from the fear of losing a job greater than a century ago? It can by no means be proven even when making use of the expertise of a psychologist. The primary barrier in defending this thesis is the lack of proper statistical and comparative data in the analyses.

Bauman strives to convince the readers that the increase of social fears intensified especially at the moment of disintegration of the so-called welfare state which took care of fostering the well-being of its citizens. Regrettably, he did not indicate a great number of negative consequences of such a policy. Jerzy Holzer

– a Polish historian – defending the conservative approach in times of Thatcherism drew attention to the fact that ‘financial disaster or indebtedness burdening future generations would cause in the long-term acute losses in the tissue of public life. It is hard to acknowledge that the conservatives undermined the foundation of the welfare state’ (2012, 719). Bauman in turn pointed out that the key task of governments after the fall of the welfare state should be the creation of a new formula providing the authority of the state. Unfortunately, according to the sociologist, at present governments, supported by non-reflexive media, obsessively assure societies about the need for their security. People living in besieged fortresses do not necessarily feel safe, however, in the case of avoiding a terrorist attack, they convey their gratitude to the authorities who did not allow the tragedy to happen. As Bauman has it, contrary to the policy of security, economic issues were completely devoured by the market in which there is a constant insecurity, and even the best government in the most democratic country will not remedy that.

Remarks on the consumer society

Bauman concentrates on criticism of the modern consumer society. He presents a dramatic mechanism in which consumerism is a kind of escape from stress, forgetting about failures, and even – and it will sound dramatic – a substitute for love, friendship and communication (Bauman writes a lot about the crisis of marriage and wonders why so many of them end in divorce²). Presenting the motives and characteristics of consumerism is by no means an original observation for an economist, as it was in the 19th century when Thorstein Veblen noticed similar behaviours in the American society. If we are to compare the two periods, however, there is a visible change in the number of participants of consumerism (its commonness) and a greater choice of new goods that potential participants have. It is also pointed out by Bauman when he writes that they are in a vicious circle. Through greater consumerism, people flood the world with a greater amount of waste. They themselves are reluctant to tidy up. The moment of hard and dirty work of utilisation is too disagreeable a task for them. They then have to turn to ‘wasted humans’. With time, however, also this group unintentionally becomes open to the pleasures of consumer life. ‘This is what consumerism is all about – and it certainly does not include the performance of dirty, gruelling, wearisome, or just unentertaining, “no-fun” jobs. With each successive triumph of consumerism, the need for rubbish collectors grows’ (Bauman 2004b, 95).

² An economist should get himself acquainted with the works of Polish scientists on the subject (Sztudynger 2009; Baranowski, Sztudynger 2011).

In his latest works Bauman is even more critical of consumer behaviours. He argued: 'And yet the invasion and annexation of the realm of morality by consumer markets has burdened consumption with additional functions it can perform only by pushing the levels of consumption even higher' (2012, 194). The question arises whether consumerism may expand infinitely with the limited space of our planet? Is it possible to set limits of consumption growth only because of the threats of the outbreak of ecological disaster? Bauman has no doubts – he writes that this task seems impossible to realize and it is terrifying at the same time. Who is then to curb consumption? What government, what party would decide to include this issue in its programme, even in the name of saving the earth? As a result, he concludes that:

(...) the commodification of ethical responsibilities, those major building materials and tools of human togetherness, combine with the gradual yet relentless decay of all alternative, non-market ways of bringing it about, is a much more formidable obstacle to the containment and moderation of consuming appetites than the non-negotiable prerequisites of biological and social survival. (*ibid.*, 194–195)

Bauman also remarks that modern consumerism does not refer to any needs. Goods have become props. The sociologist then draws the following conclusion:

In the mature society of mature consumers, consumerism is a modality of life. It is not about the need to pocket, possess or use objects – but about the infinite act of purchasing and disposing. Consumerism focused on the very act of buying ceased to be dependent on the aim it serves. It is an aim in itself – a sufficient aim. (2007a, 14)

This conclusion may paradoxically become a hope to reduce material waste. If transactions on the Internet are rendered all the time, and objects become more and more virtual (from debt securities and shares to music files, online games or even characters from these games) it is possible that there will be a significant shift of existence of physical waste into Internet spam (it does not imply that it will be easier to get rid of it, though, the physical space will not shrink that fast). While it is true that the amount of online waste increases at a geometric pace, it still seems that its utilization may be easier than disposing of piles of useless plastic, gum, or metal which have led to the ecological disaster of the planet.

People and data

Remarks connected to the problem of wastage also appear in Bauman's works when he makes references to the principle of population presented by Thomas Robert Malthus, who in his renowned work *An Essay on the Principle of Population* published in 1798 was afraid of an explosion of the 'demographic bomb'. He claimed at that time that the population, in the case of there being no

boundaries, will grow in geometric progress, and food – as a means of maintaining the population – in arithmetic progress (1798, ch. 1).

Bauman, citing data by the UN, warns against another population explosion. The reports cited by the sociologist forecast 14 billion people living at the end of the 21st century, however, the peak point for the earth's resources would be when it exceeds 9 billion, still in the first half of the century (Bauman 2012, 282–283).³ Bauman treated the data with some reservation, but his criticism of 'neo-malthusianism' does not seem to be sufficient. He conducts research into the problem from the perspective of society – he writes about fears stemming from overpopulation and why at the threshold of the new millennium there appears another wave of the threat. He claims that the threats of a demographic nature result from the inevitable products of modernization. The amount of waste, according to Bauman (*ibid.*, 286), is constantly increasing in line with the commonness of its production on earth: '(...) human redundancy is produced globally nowadays, not locally (...)'. Industry in its traditional form cannot deal with removing or even processing the waste. In Bauman's valuable sociological reflection there are no cool-headed calculations of an economist. Just like the prognoses by Malthus did not include the significant increase of production efficiency,⁴ present-day reports remain silent about the possibilities of further increase of productivity with a decreasing use of natural resources. We may turn to a simpler solution, possibly treated by Bauman as a utopian one. Referring here to waste once again – if in a great many countries, half (or even *gross*) of the food is wasted, then nourishing 14 billion people (that is twice as many people as the population in 2012) will depend not on the efficiency of the productivity, rather on the efficiency of distribution (which is now becoming faster and cheaper).

It turns out that, for economists, making use of Bauman's analyses may prove useful when confronting them with the theories both of institutionalists (*vide* Veblen) as well as classicists (*vide* Malthus).

Bauman also refers eagerly to the UN statistics when it comes to world poverty. Citing Margaret Bounting he repeats that '[t]hree quarters of the world's poorest now live in middle-income countries such as India or Nigeria' (2012, 36). He, at the same time, claims that the United Nations hardly engages in the liquidation of inequality in developing countries. The sociologist reminds us that Glenn Firebaugh in the book *The New Geography of Global Income Inequality* (2003) talked about the appearance of new trends in income inequalities – he observed a decreasing trend between nations with a simultaneous increase of inequality within one country (which is so eagerly measured with the use of the Gini coefficient). However,

³ Bauman does not provide bibliographical data of the report by *The Economic and Social Council, ECOSOC*.

⁴ Around the year 1870 agriculture provided 6 times more products in comparison to the beginning of the 18th century. What it meant is that even with an increase in population, food got to urban areas in greater amounts, it was of better quality as well as it was more diverse (Skodlarski, Matera 2004, 105).

neither the first part of the thesis nor the second finds its proper justification in economic research. One may here seriously debate the calculative methodology⁵.

The theses by Bauman and Firebaugh are refuted by Deepak Lal who tried to break the stereotype of the increase in disparities between rich and the poor countries. He proved that at least since the 1980s world poverty has decreased (Lal 2006, 135). According to Lal, the diminishing of penury in the developing world came into being as a result of Chinese reforms at the end of the 1970s, the liberalization of the Indian economy in 1991, and as a consequence of the transformation of the planned economy into a market economy in Latin America. The only region where poverty has actually increased in recent decades is Africa which has been struggling with serious management problems and has failed to integrate with the world economy.⁶

Lal also claimed that the thesis of the increase of inequality within particular countries cannot be defended effectively. Even if in the 1980s such countries as the USA, China, Great Britain, Nigeria, and in particular Russia and the countries of Eastern Europe noted an increase in the indices of national inequalities, at the same time Sweden, Brazil and Mexico noted their decrease and in the four great economies of Asia – India, Indonesia, South Korea and Vietnam – there was no tendency towards an inequality increase. The conclusion of a more balanced and scientifically proven nature is then Lal's conclusion: while some countries developed in the next stage of globalisation, other states experienced a greater or lesser regression (*ibid.*, 137–139).

When verifying Bauman's claims in terms of the decrease/increase of inequality between nations and within countries one has to acquaint oneself (if only for the contrast) with the views of the sociologist on the issue of wealth. He dismisses, for example, the *trickled-down theory* according to which it is assumed that the wealth of the rich drips (trickles) down, reaching the poorest classes through investment and increase of employment. Bauman (2012, 69) proved that we actually experience the opposite tendency (it needs to be understood that the richest getting richer results, relatively, in the poorest getting poorer),

⁵ It depends on which countries are compared, the same in two different periods or a given number of the richest and poorest states in the same periods. According to the Hindu researcher Sheilla Bhalla (the one that Deepak Lal refers to) in the publications of the World Bank there is numerous evidence of an increase in income gap, however, what is compared there is the product *per capita* of the 20 richest and 20 poorest countries. In this way, in only the years 1960–2000 the discrepancy of inequality increased from 23 to 36 times. It needs to be emphasized, though, that a comparison would make sense only if we juxtapose the same group of countries in a different period. It turns out that with such a method the gap between the richest and the poorest countries in 1960 actually decreased from 23 to 9.5 in 2000 (Lal 2006, 134–135).

⁶ Lal (2006, 132, 143–145) explains where the misconceptions about the increase of the world income differences come from. He claims that it stems from a lack of reliability of the research at the lower level and an incorrect use of statistics applied by the World Bank. See more: Matera, Matera (2011).

and the turmoil with loans did great harm to a sizeable group of the poorest, especially the pensioners. The sociologist equally strongly criticizes the actions of the state that are intended to 'save the economy' but which actually lead to the wealthy getting rich and the poorest getting poor. He then refers to the project of the American Congress as regards the issue of removal of the reduction of taxes for the wealthiest. He indicates the reluctance of the richest groups to change the state of affairs (fiscal solutions). He turns to the statement by the very Warren Buffett – one of the richest and the greatest world investors: 'There's class warfare, all right. But it's my class, the rich class, that's making war, and we're winning' (*ibid.*, 71). Making reference here to Buffet is unfortunate as it was the billionaire who openly criticized the American tax system and repeatedly said that he himself and his wealthy acquaintances ought to pay the state far more taxes.⁷ The suggestions of Buffet to increase taxes for the richest led to a heated debate in the United States. It needs to be pointed out that the billionaire was attacked on account of his apparent 'fiscal hypocrisy'. Among the critical voices of the owner of Berkshire Hathaway was another popular investor, and an economic commentator, Peter Schiff, or the renowned macroeconomist Gregory Mankiw, who claimed that even if the tax rates were increased, Buffet would still avoid paying taxes on all his income since a great part of the profit came from capital transactions.⁸ Here Mankiw and Bauman spoke with one voice.

Bauman in times of crisis

Bauman pays a lot of attention to the present financial crisis which at the end of the first decade of the new millennium surprised not only the societies of the developed countries but also most of the economists. It was already in the year 2005 in *Europe. An Unfinished Adventure* that the sociologist mentioned the allayed fears sleeping fears of the outbreak of a serious crisis. Analysing the short story by Franz Kafka *The Burrow* he proved that '[a]nxiety disturbs life, but life turns gradually into a string of disturbances; tearing that string breaks life as one has learned to live it and to recognize it as life. Life is anxiety, anxiety is life' (Bauman 2004a, 140). One such worry was the fear of an economic crisis. He reminded us that generations remembering the depression from the beginning of the 1930s throughout their whole lives carried a fear of another collapse, and even the traumatic events of the Second World War did not erase from their memory the millions of unemployed, the fall of great enterprises, or the suicides of stock exchange players. In the course of time, as a consequence of alleviating

⁷ An article by Buffett entitled *Stop Coddling the Super Rich* published in "New York Times" on August 14th, 2011.

⁸ <http://gregmankiw.blogspot.com>.

the acute effects of economic recessions and the extending of the welfare state, such worries were forgotten. On account of this, the idea of the welfare state became *passé*. Economic problems turned into safety issues, which especially after the events of September 11th, 2001 became the greatest human obsession, and the fears of a market collapse were less and less visible until the collapse of the Lehman Brothers bank in 2008.

Bauman warns against the creation of other speculative bubbles. He writes (2012, 76) about e.g. the fashion of buying out shares from emerging markets where allegedly '(...) a new virgin land has been discovered by the intrepid scouts of Wall Street'. However, at the same time he reminds us about the effects of such a form of investing for the economy of Mexico (1994), Thailand, Indonesia (1997), Russia (1998), Brazil (1999) or Argentina (2002), and he fills the list up with the victims of the present crisis: Greece, Ireland or Latvia (*ibid.*, 77), nevertheless, the condition of the countries is radically different, even if each of them was affected by a crisis situation. To present a full picture it has to be remembered that investments (both short and long term ones) had a favourable influence on the above-mentioned economies. The very same capital that was destructive had also a healing power for most of the analysed countries. Bauman must have forgotten about the famous statement by Joan Robinson, who is ideologically close to him, who argued, that there is nothing worse for a country than being exploited (by a foreign capital) except for not being exploited (Robinson 1965). The sociologist has no illusions and asks: 'How many virgin lands need to be forced into catastrophe for that routine to be broken? Or does capitalism, or the politics servicing it, mean the very impossibility of learning?' (Bauman 2012, 78). Bauman, however, disregards the fact that there are new legal protections, without which the flow of capital would be impossible to render. On the other hand, though, changes on the capital market are very dynamic and the law does not always manage to follow them.

Bauman tries to convince the readers that the recent crisis did not teach them much, especially the American society. Citizens of the United States, under the influence of the catastrophic information from Wall Street and the banking sector, at the end of 2009, managed to save some of their income, however, at the end of 2010 their savings drastically dwindled again. The sociologist concludes that: people do not learn from their own mistakes, they forget about the protestant virtues that were featured by Max Weber in his work *The Protestant Ethics and the Spirit of Capitalism*. Other conclusions by Bauman are equally controversial – e.g. the lack of the saving instinct became the cause of poverty in the USA – still, it needs to be mentioned that some liberal economists also believe that.⁹ In a provocative manner (possibly) the Professor quotes examples that in the difficult reality of the 19th century even the slaves in Haiti managed to save...

⁹ Looking for the source of crisis in insufficient consumption is Keynesian in nature.

One may continue feeling outraged when the scientist cites Thomas Geoghegan from the "New York Times" writing that 43 million Americans live in poverty that corresponds to the number of beggars in Egypt (*ibid.*, 257). An economist would not agree with such a comparison: *primo* – without naming the methodology of gathering data about the number of the poor from both countries, and *secundo* – without giving the information that the population of Egypt is almost four times smaller than that in the USA which means that proportions are being lost. It would be just the same to say that the number of poor in Europe is equal to the number of the poor in some country in Latin America, Asia or Africa (it seems that it would be easy to produce such a comparison without the reflection of proportions). One way or another, Bauman's arguments stop being credible when he turns into a publicist. The reader develops compete bewilderment when the sociologist claims that people have got accustomed to a few-percent rise in the prices of train tickets, beef or electricity but they cannot stand a 300% price increase (*ibid.*, 218). We will not find out, however, what commodity or service the rise relates to, and Bauman does not intend to show the inflation changes. This is an immature method, even for a scientist with a publicist face.

Bauman's remarks on the long-term effects of the crisis sound more convincing, though. It is hard to disagree that the crisis indeed had a different influence on the lives of the rich and the poor (it still changed both classes). According to Bauman (*ibid.*, 35), the suddenness and voracity of the crisis are inextricably linked with the class the citizens belong to.

Happiness, its essence and measures

Fortunately, in Bauman's works we may come across a great many interesting and in-depth threads that should not outrage economists so much, although they are often detached from their main trend in the research. The sociologist poses another provocative question: do we actually need economic growth today? He cites Tim Jackson – the author of *Prosperity without Growth* – that the present model (is the model really that modern) became the cause of irreversible harm, because the increase is measured materially, and not with the use of free time, health and education (*ibid.*, 182). In fact, economic growth is measured by estimating the size of production, and it is not confined only to material goods, since health and educational services are included in GDP.

Bauman (*ibid.*, 193) asks whether we can infinitely measure the level of people's happiness with GDP. He does not want to remember that there are interesting compilations based on the *Human Development Index* (HDI) or the ranking of the happiest countries in the world published since 2006 – the *Happy Planet Index* (HPI). It needs to be remembered that the HDI, as a synthetic measure, apart from GDP *per capita* includes the span of human life (which is a good exemplifica-

tion of improvement or regress in the field of health protection) and the level of scholarisation (the level of education and access to it). When it comes to HPI, it takes into consideration the measurable life span as well as the non-measurable level of satisfaction of particular societies. HPI, next to the quality of life, tries to allow for the ecological value that is the index of exploitation of natural resource after the 'production' of welfare. More and more often the latter is converted into well-being.

While the new quasi-journal of Bauman certainly fosters reflection, it does not serve science. The reader is faced with stereotypes. A better choice would be to reach for *The Art of Life*, a book which covers the subject of achieving happiness. Bauman does it in terms of both a historical analysis and through an in-depth observation of the reality at the turn of the century. Even the beginning of the deliberations is fascinating, though a bit reproductive. The author adopts the evoked thesis that the size of GDP does not determine the level and intensity of human happiness. Research questions connected with the correlation were posed earlier by, inter alia, the authors of the great work *Happiness and Economics*, Bruno S. Frey and Alois Stutzer. Their research proved that people in countries of higher income are happier than those who have less money. However, what needs to be taken into consideration is more the growth of happiness, and in this case it is, in general, bigger in poorer countries where the growth of income in relation to the previous level is greater (proportionally). In wealthy countries individuals get accustomed to the large income and, in consequence, their level of happiness decreases to the initial level. What counts for an individual is a relative level of income that can be compared directly to the income of others (Frey, Stutzer 2002, 79). Bauman (2009, 48) notices this trait as well by citing Max Scheler, who in 1912 observed that the appreciation of value by the average individual happens 'in the course of, and through comparison'.

Bauman is not an economist – he looks at the size and distribution of GDP mainly through the lens of social changes. He argues that half of the goods that are indispensable for man in order to achieve happiness have no market price. He claims also that the invisible hand of the market was not effective enough so as 'to save humans from the horrors of reciprocal cruelties' (*ibid.*, 92). He admits, however, that from the statistics of GDP we find out '(...) how strong and how widespread the *belief* is that there is an intimate link between happiness and the volume and quality of consumption' (*ibid.*, 21). The key to understanding this idea is the word 'faith'. What do we want to believe in? We, the artists of life (this is the title of the second chapter of *The Art of Life*) have great problems defining happiness. Such a difficulty is not exposed in contemporary times. Bauman makes use of statements of the great sages of antiquity (he cites Socrates, Aristotle, Epictetus, Seneca and Marcus Aurelius) and contemporary philosophers and sociologists (he wants us to read Blaise Pascal, Immanuel Kant, Emile Durkheim and Erich Fromm), and even with this intellectual support, the result is predictable –

there is no single definition of happiness. We may as well include in the list Leszek Kołakowski whose statements may easily be juxtaposed with Bauman's theses. The guru of Polish philosophy wrote (2013, 214):

There are, of course, people who consider themselves happy because they are successful: healthy and rich, lacking nothing, respected (or feared) by their neighbours. Such people might believe that their life is what happiness is. But this is merely self-deception; and even they, from time to time at least, realize the truth. And the truth is that they are failures like the rest of us.

The authors of *Happiness and Economics* pointed to the relationship between happiness and socio-economic factors such as: age (the young and the old are, in general, happier than the middle-aged), health, marital relationships, education, even sex and nationality. As regards Bauman, he considers the following factors the most 'creative' as regards happiness: work (without hard work life does not gain value), but also such vaguely measurable phenomena as friendship (it is a kind of escort in the journey through liquid modernity), responsibility (it is the proof that Bauman walks hand in hand with Emmanuel Lévinas) and love. The latter does not guarantee a reasonable life if it is modelled on our consumption behaviours. Love will not build itself and it will not last, it has to be created and recreated every day, 'love is something that has to be continually revived and confirmed, enveloped with unremitting/unfailing care and attention' (Bauman 2009, 231).

Bauman makes a lot of references to the apparent achievements of technology. What attracts attention is his analysis of the 'strategy of detours' (he uses the book by Jean-Pierre Dupuy), in which he argues that our achievements in the field of transport or medicine are only ostensible. He wonders whether the invention of the car does indeed save our time. He quotes data on the number of hours spent in the car, the time sacrificed to its operation, maintenance and the time needed in order to afford a new vehicle. Taking all that into consideration, the car allows us to move at 4 miles an hour (that is almost the pace of a pedestrian). An example of the 'strategy of detours' is also our introduction into the pharmaceutical-medical chain. Instead of leading a healthy lifestyle, we spend a lot of time in surgeries, queuing to meet a specialist, taking a lot of medications, which often cost us a fortune. Here I would also add the newer and newer computer programmes which we learn anew, instead of just mastering the old ones (optimizing their application). Once we manage to perfectly use them, we waste time on new adaptations. This is the 'detour route' which is understood as the need to acquire technical progress (Bauman 2008, 131–132). These might be interesting threads for economists, and not only the heterodox ones.

Technology at least keeps developing, unlike morality which is in a delay state. Maybe we are afraid because our morality is that weak. Bauman writes that there is such a phenomenon as a technological trap. Having at hand a pal-

let of gadgets (mobile phones, programmes for communication on the Internet for which we need laptops, notebooks, micro PCs, smartphones, tablets) we are exposed to constant invigilation – we are always and everywhere available. Each of us has to be on call immediately (*instant!*) for our employers, family, net operators, or sellers. Such a form of communication became at the same time a duty and an internal need. The doors of our houses became draughty, they stopped isolating the hustle and bustle of the outside world, and they cannot stop the outflow of information, nor our emotions and feelings.

Towards the conclusions

The great Argentinean writer Jorge Luis Borges (who is cited also by Bauman, recognizing him as one of the greatest Europeans in every sense except for the geographical dimension) in the preface to his book *A Universal History of Infamy* wrote that 'reading (...) is a later activity than writing: more resigned, more courtesy-like, more intellectual' (2005, 6). On account of that intellectualism it is worth reading Bauman, however, it is difficult to agree with all of his theses. One cannot be indifferent to them, though. Through reading and this indirect form of confrontation with the Author's views one can deepen their thoughts and find arguments for their own views. However, we are often unable to write them down precisely.

In *Terrors of the Global* (the chapter *Liquid Fear*) Bauman acts as the guru of alter-globalists. He notices and characterizes the negative shades of globalization. A few times he goes too far, writing that the bad globalization comes from the United States, the International Monetary Fund or the World Trade Organization. Criticising centres of power and institutions is easy but noticing or appreciating help rendered in times of disasters is more difficult (airlifts from the USA to Haiti after an earthquake, or the activity of IMF in times of financial crises, including aid in Argentina, Iceland, Ukraine and Hungary). The author arouses strong controversies when he equates the negative consequences of globalization, such as arms smuggling, crime, terrorism or the omnipresent control, to trade, business, capital and information. Globalisation is, in his eyes, only a parasitic and predatory process (Bauman 2008, 167, 255). After the insult of the unbearable world, Bauman reminds himself, however, that the societies of developed countries live in the safest moment, so the uncertainty, panic and fear are, in fact, a paradox. The scientist warns us against the conviction about the need to fight and generate artificial threats.

In the final part of *Liquid Fear* (in the last chapter entitled *Thought against Fear*) Bauman reveals his views. He is against the spread of neoliberalism, which favours the strong and the rich and excludes the weak and the poor. He does not support the state as a provider of personal safety either, which took the place

of the ailing social state. However, the first turns out to be less welcoming as regards democracy. Moreover it generates fears – and it is the fears that totalitarian countries are based on. Bauman puts forward the thesis that the state of personal safety shifts the real economic fears (such as inflation or unemployment) to other types of fears (e.g. terrorism or lack of safety on the roads, that lead to buying more stronger, more heavy duty vehicles). The sociologist also wants us not to forget the warnings of Karl Marx in these fragments where he writes about wastage and moral impropriety. It is a pity, though, that he does not stress that it is still a very dangerous book for enthusiasts of radical solutions and the creation of more predictable fears (and because of that even more traumatizing) than generated by capitalism. Bauman (*ibid.*, 310) puts forward a very daring thesis that the prophets of the concept/idea wanted the future to show that they were wrong in order for their prophecies themselves to fail.

Bauman's books inspire and incite criticism. Even if we do not agree with a number of his theses, it is still vital that we start to think about them intensively. It protects us from intellectual inertia and forces us to deal with fundamental ethical aspects. It is only then that the reality becomes bearable. In his controversial journal Bauman (2012, 123) repeatedly states, citing Lévinas, that '(...) ethics is not superior to ontology due to the unquestionability of its truth (its agreement with reality), but thanks to being better than reality ("better" being a house-term for ethics, but a foreign notion for ontology)'.

Political Corruption and Electoral Systems Seen with Economists' Lenses

A natural consequence of the ongoing process of democratisation over the last two centuries has been the increase of importance of the rules that influence the way we choose representatives rendering power in the name of the sovereign that is the nation. The fundamental role is played here by electoral systems, which in modern democratic states based on the rule of representative democracy determine the way of gaining and legitimizing power. Taking into consideration their great weight the question arises whether these particular 'game rules' themselves have an influence on the respect of the rule of law, being one of the basic norms of a democratic system.¹ In other words – do the rules of the electoral law influence the scale of power abuses, which are committed by politicians holding public offices who are chosen according to these rules, and to what extent? A question then may be posed about the existence and the character of the relation between electoral systems and the level of political corruption, indicated in the title of this chapter.

The notion of corruption is here confined to the abuse of power by people holding public offices in order to gain undue advantages.² It needs to be noted, however, that this phenomenon may be and frequently is defined more broadly – the notion of corruption may also apply to instances of abuse of the professional or social function fulfilled by representatives of other professions, e.g. doctors, university teachers, policemen or office workers, as well as – which by economists is taken into account extremely rarely – entities working in the private sector (Adit 2003; Jain 2001; Lewicka-Strzałecka 2001; 2007).

The evidence of the difficulty in defining the term on the legal and legislative level may be the verdict of the Polish Constitutional Tribunal from June 23rd, 2009

¹ According to William Riker (1982) the capacity of the system to counteract abuse of power by politicians is the basis for the so-called 'liberal' view of democracy and is one of the basic conditions of the effectiveness of the democratic system.

² Some problems with the precise interpretation of the notion of 'political corruption' were aptly presented by M. Philp (1997).

overruling part of the regulations of the Central Anticorruption Bureau Bill from June 9th, 2006. By act of this law the provisions determining in which situations we deal with the phenomenon of corruption included, *inter alia*, in this very act were declared not consistent with either the Constitution of the Republic of Poland, nor the Convention for the Protection of Human Rights and Fundamental Freedoms (Article 1 point 3 of the initial text of the bill). After the verdict taking effect the statutory definition of corruption expanded greatly.

The relation between corruption and the shape of electoral systems in a natural way fits the field of research into political sciences. In this context *prima facie* it may seem surprising that in the last two decades research on the subject has been conducted and to a great extent has been inspired by economists themselves. It seems that the interest in the issue on the part of the representatives of economic sciences has been in a way a 'by-product' of their great involvement in defining and specifying economic consequences of corruption. On the other hand, however, the fact may also be interpreted as one of a great many manifestations of the economics imperialism.

This chapter aims to present the economic approach to the comprehension of the relations between the rules that electoral systems are based on, and the level of corruption as well as the evaluation as to what degree this approach may be treated as fruitful.

Electoral systems: some basics

In the starting point it seems only natural to define what will be understood under the term 'electoral system'. For the needs of further analysis we may assume the general approach, according to which an electoral system consists in a set of rules formalizing the methods of the aggregation of voters' preferences and on this basis allocating seats to the representative bodies. Norms building up an electoral system define, *inter alia*, the right to elect and to be elected, the rules of choosing candidates, the running and financing of electoral campaigns, the method of conducting voting, the method of converting votes into seats and the procedures allowing for the control of the propriety of the election. It needs to be emphasised in advance that when researching electoral systems from the economic perspective the analyses concentrate on this part of the above-presented rules which allows for the determination of the election result, that is on (1) electoral formula, (2) the type of ballot and (3) the procedures determining the size of voting districts.

The diversity of the applied electoral systems is immense. When classifying the presently used electoral systems, the thing taken into consideration most often is the level of projection of preferences expressed by the voters at ballot boxes, and in this way the rendered allocation of seats. When applying such a criterion one may distinguish two most general classes: the majority/plurality

systems and the proportional representation ones (PR). In the case of the majority/plurality systems, elections are won by the party whose candidates win in the greatest number of constituencies, and as regards PR, the winning party is the one which gained the greatest support in the scale of the whole country.

The majority/plurality systems belong to the oldest and, at the same time, easiest solutions still successfully used today. It is one of the most popular methods of choosing members of the modern legislature – it is used in over 80 countries and dependent territories around the world³. The nature of the plurality systems is based on the fact that the seat is allocated to the candidate that received the most votes. In the simplest version, when in order to get the seat the simple majority of votes is enough, we deal with **the first-past-the-post system** (FPTP). Such a solution is at present used in, among others, Great Britain and in many countries once belonging to the British colonial empire⁴. When in order to get the seat one has to receive the support of the majority of voters we deal with **the majority system**. Such a solution usually leads to the necessity of organizing a second round of the election in which only a certain number of candidates with the greatest number of votes from the first round may take part. The majority system is in operation in, among other places: the French National Assembly, Vietnam, Iran or Belarus. Plurality systems are, in general, used in single-member districts, although the application of the plurality rule in the election in multi-member districts is also possible. The voter administers then as many votes as there are seats to be allocated in a given constituency. Such a modification is used rather rarely.⁵ The *single non-transferable vote* (SNTV) system may be treated as a special case of the plurality system in which the voter is in possession of only one vote but in multi-member constituencies.

On the other pole of the presented spectrum there are **the proportional representation systems**, which are equally popular as the majority/plurality systems now.⁶ The PR methods are to reflect voters' preferences in the distribution of seats in parliament. An ideal situation is when the distribution of seats in the representative body ideally corresponds to the distribution of votes cast for particular parties taking part in the election. In practice this ideal is not possible to realize and the adopted solutions to a greater or lesser degree modify the result achieved directly on the basis of counting the votes. In the case of PR systems key importance has

³ All the data on the electoral systems are retrieved from the database the Electoral System Design provided online by the Institute for Democracy and Electoral Assistance (accessed 15th December, 2014). As regards bicameral parliaments the electoral system for the lower chamber is taken into consideration.

⁴ The system based on the simple majority rule is in force e.g. in Canada, India and the United States.

⁵ The system is in force in only 9 countries and dependent territories.

⁶ Proportional systems are in force in election to parliaments in over 80 countries. They are used, *inter alia*, in most European countries and almost all the states in South America.

the so-called allocation formula, that is, a mathematical formula used for the conversion of votes into seats. Among the presently used allocation formulas, the most often applied ones are the largest remainder methods (e.g. Hare-Niemeyer method) or the highest average methods⁷ (e.g. the d'Hondt method or Sainte-Laguë method), however, with the first ones the votes are converted into seats more accurately.⁸ Unlike the majority/plurality systems, the proportional representations systems are used in multi-member constituencies, though the size of the constituency may vary – from two-member voting district to a situation when we have one constituency for the whole country.⁹ Voting usually takes place for party lists. The lists as a rule are closed – the voter chooses only the list, and not a particular candidate.¹⁰ For proportional representation systems it is typical to use electoral thresholds. The introduction of thresholds decreases the risk of excessive fragmentation of the parliament but it naturally decreases the proportionality of the system.

A relatively new, 20th century solutions, are the **mixed voting systems**,¹¹ in which some of the seats are distributed according to the proportional formula and some of the seats are allocated according to the majority one. The implementation of such systems was introduced as there was a need for a solution to avoid the disadvantages of the purely majoritarian and purely proportional systems. The mixed voting systems are conducted in two basic versions: if the distribution of seats in both parts happens independently from each other it is referred to as the parallel system. However, if the final allocation of seats is decided about on the basis of the proportional part, that is then the mixed member proportional (MPP) or personalised system.¹² The personalized system is far more complex and less frequently implemented.¹³

⁷ The so-called quota methods may be treated as an option of this method (e.g. Hagenbach-Bischoff method used in Belgium) where part of the seats are allocated among these candidates who received a number of votes higher than the applied threshold (Nohlen 2004, 106–107, 437–438).

⁸ The highest averages methods lead to overrepresentation of those parties which got the most support. This effect is the greatest in the d'Hondt method.

⁹ It happens in the case of, *inter alia*, Israel and Netherlands.

¹⁰ It is possible to use the so-called open lists, in the case of which the voter can point out the most preferable candidate from the party list (such a solution is used in the elections to the Polish Sejm) or the free lists in the case of which the voter may pick up more than one candidate (the number of candidates to choose may be equal to the numbers of seats in a given constituency) or even give more than one vote to the same candidate. See also A. Reynolds, B. Reilly, A. Ellis (2008, 84–85, 90).

¹¹ On the theoretical level these solutions were discussed already in the 19th century, however, for the first time the system was used in practice in Denmark after First World War (Nohlen 2004, 169–170).

¹² The solution referred to as the model is the one applied in elections to the German Bundestag. In this system every voter is in possession of two votes, one is for the candidate in a one-member district (the seats are allocated on the grounds of the plurality system) and the other for a closed party list.

¹³ The system is used only in 9 countries (according to data from Institute for Democracy and Electoral Assistance).

Advances in the process of democratization and the popularization of voting rights prompted the search for and introduction of systems that would allow for the fuller representation of the voters' preferences. The most well-known solutions of this type are the following: alternative voting, single-transferable vote (STV) and the Borda method.¹⁴

Alternative voting¹⁵ is a type of preferential voting organised in single-member districts, and the voter has a chance to indicate a given number of candidates that are arranged from the most to the least preferable, assigning them consecutive natural numbers (1 signifies the most preferable person). When reading the election results, first the votes for the most preferable candidates count – that is, the people whom voters gave the number 1. The seat is given to the candidate that receives an absolute majority of such a type of votes. If there is no such person then the candidates with the least number of 1s are eliminated and their votes are distributed among the candidates that were second. This procedure lasts until a candidate is chosen who is supported by an absolute majority of the voters.

A similar solution is **STV** although it is used in multi-member districts. With this system the voters can also arrange candidates crediting them with importance expressed in numbers. However, the basic condition in order to get a seat is to exceed the electoral threshold. Then if the applied criterion is not enough to distribute all the seats, a procedure is applied which takes into account other choices of the voters (candidates arranged second and other).

As regards **the Borda voting method**, the voter arranges all the candidates from the most to the least preferable ones crediting them with natural numbers (the maximum is the number of all the candidates running for a seat in a given district). The numbers are then added and the seat is given to the candidate that received the highest score from all the added up votes. If the voters can decide themselves how many candidates they arrange then we deal with the system called **approval voting** (see Brams, Fishburn 1978, 831–847).

It needs to be emphasised, though, that apart from the undisputed advantage of the preferential voting systems, which is the possibility of fuller representation of the voters' preferences, they are still used relatively rarely¹⁶. The basic problem seems to be the fact that they are more complicated both for the voters and also from the perspective of deciding about the election result.

The most important information on the subject of the presently used electoral systems, together with an example of the countries in which they are applied, is shown in the table.

¹⁴ The method had already been introduced at the end of the 18th century by French mathematician Jean Charles de Borda.

¹⁵ The system is also referred to as *instant run-off voting*.

¹⁶ The approval voting system has not been used in parliamentary election in any country as yet.

Table. Electoral systems' types

Type of voting system			Examples of countries in which a given system is applied (the number of countries)
(1)			(2)
MAJORITY/ PLURALITY	First-past-the-post	single-member districts	<i>Great Britain, India, Canada</i> (44)
		multi-member districts	<i>Kuwait, Lebanon, Tuvalu</i> (9)
	Majority system		<i>France, Vietnam</i> (18)
PROPORTIONAL	lists' type:	closed	<i>Austria, Chile, Iceland, Israel, Morocco, Norway</i>
		open	<i>Denmark, Latvia, Poland, Sweden</i>
		free	<i>Switzerland, Luxembourg, Ecuador</i>
	voting formula:	the highest average methods	<i>Argentina, Poland, Sweden, Norway</i>
the largest remainder methods		<i>Algeria, Cyprus, Colombia, Russia</i>	
MIXED	parallel		<i>Bulgaria, Lithuania, Mexico</i> (23)
	personalised		<i>Germany, Hungary, Romania</i> (9)
OTHERS	Alternative vote		<i>Australia</i> (2)
	Single Transferable Vote		<i>Ireland, Malta</i> (2)
	Single Non-Transferable Vote		<i>Afghanistan, Vanuatu</i> (4)
	Borda method		(0)

Source: Own elaboration on the basis of data obtained from the International Institute for Democracy and Electoral Assistance (accessed 15th December, 2014).

Corruption and barriers to entry in the political market Myerson's model

The pioneer of economic analyses of the correlations between electoral systems and the level of corruption is a Nobel prize-winner in economic sciences, Roger Myerson. In 1993 he proposed an approach which in time gained an almost canon-like significance, both for economists and representatives of other social sciences dealing with the problem in question. Like Anthony Downs (1957,

11–12, 36–38) and the representatives of the public choice theory, Myerson assumed that the actions of individuals on the political arena are a consequence of the same motives that govern their actions on the economic scene – in a particular institutional context they rationally strive for the maximization of benefits they are able to achieve with the use of the resources given.¹⁷ Politicians running for election make every effort to gain a seat and voters want their candidate or party to win in order to ensure their favoured policy be implemented.

Myerson also assumed that voters (1999, 681, 685):

- recognise corruption as undesirable and attach the same importance to the problem;
- have varied opinions on the remaining issues presented in political offers of particular parties or candidates;
- possess knowledge on the level of corruption of particular politicians and political parties;¹⁸
- harbour a belief that their vote counts.

As regards political parties, however, they strive for the maximisation of the category named the expected corruption profit, which in fact is convergent with the aspiration to maximize the number of votes a party gets.¹⁹ For the model sake Myerson also assumed that for every party existing on the political scene there is a formation with the same programme for which the expected level of corruption equals zero (a 'clean' party). The subject of deliberation is then the situation when in the parliament there are representatives of two parties – left-wing (L1) and right-wing (R1) – corrupt to the same level (positive and similar corruption level). The seats in the legislature are also run for by the representatives of the corresponding non-parliamentarian formations L2 and R2. Their index of corruption equals zero.

Using the tools from the games theory, Myerson debates what result might be expected with the use of various electoral systems. He concludes that in a country with an electoral system based on the rule of plurality the 'clean' parties (L2 and R2) could enter parliament only when the voters decided that the problem of corruption is a more important issue for them than the ideological differences. It happens because with the plurality/majority voting systems the voters would be afraid that voting for a new formation is burdened with a risk of 'losing' their voices, that is, giving it to a party that will not get a seats in the parliament and will not have a say in governing process. A similar situation will happen in a system based on the SNTV rule. In the case of both of the analysed

¹⁷ The notion of resources here is a very wide one. Resources here are referred to as not only material goods but also human resources, access to information, business relations etc.

¹⁸ Myerson (1999, 685) simply assumes that 'every party has a publicly announced corruption level'.

¹⁹ The corruption profit is expressed by Myerson as a simple product of the obtained seats and a variable qualifying the level of corruption due for deputies of a given party.

solutions, in order to vote for L2 and R2 the voter would need to recognize them as 'serious' contenders, i.e. ones that could be a serious competition for L1 and R1.

As regards the use of the PR, the chances for the 'clean' parties to enter the parliament are, according to Myerson, much higher. Even if the voter expects that all the other voters with similar political preferences would vote for one of the corrupt formations, he or she will have an incentive to vote for L2 or R2. By voting in line with their actual preferences they could influence the decreasing of the cost of corruption without giving up the benefit of implementing the policy that he or she supports. It needs to be emphasized, however, that such a conclusion may be drawn only when we assume that the voters recognize that both parties (L1 and L2 as well as R1 and R2) will be ready for cooperation and the creation of a coalition government after the election. Moreover, it has to be pointed out that Myerson takes into consideration the electoral system close to the ideal of proportionality – without threshold, in multi-member voting districts, with the allocation formula allowing for a precise conversion of the votes into seats. In other words, he assumes that there are no barriers to entry on the political market or that they are very easy to get through. An assumption of this kind means that the example analysed by him assumes the character of an analytical construction as in the practice of the PR system there are always greater or lesser barriers to entry on the political market.

The main conclusion from the deliberations presented by Myerson boils down not to favouring the PR system over the majority system (as more effective in curbing corruption) but rather to acknowledging that one of the key elements simplifying the effective fight with corruption is lowering the barrier to entry on the political market. In other words, the more intense competition will be, the greater chances there are to reduce political corruption.

Corruption and the character of electoral lists, the level of threshold and the size of constituencies. Falsification attempts

Myerson's model became a point of reference for a wide range of studies on the relation between electoral systems and corruption. In economic literature devoted to the subject, two major trends can be distinguished. On the one hand, the researchers tried to expand the scope of the study, drawing attention to the remaining elements of electoral systems and showing their potential as regards curbing the abuse of power. On the other hand, there have been attempts of empirically falsify the theses formed on the theoretical grounds.

Both of the above presented approaches may be found in the publications by Torsten Persson and Guido Tabellini (2000; 2004; see also Persson, Tabellini, Trebbi, 2003). Unlike Myerson, these authors focused not so much on the very allocation formula and contrasting in this way the majority and PR systems, rather they concentrated on the importance of the personalisation of choice in order to curb the abuse of power. Among the PR systems they made a distinction be-

tween the systems in which voters have the possibility to choose a particular candidate (open or free lists) and voting for the closed party lists. The primary thesis reoccurring in the works by Persson and Tabellini comes down to the statement that the possibility to vote for one candidate, characteristic of the majority systems, PR systems with open lists and applied to some part of the seats in the mixed voting systems is a factor increasing the chances to curb corruption. In the case of voting for the closed lists, the decision about the choice of particular candidates does not belong to the voter, as they do not have a possibility to reject their support for those who are present on the party list, even if he or she assess those candidates as more vulnerable to power abuse. The evaluation on the part of the voter pertains to the whole party. It needs to be added that the simplified supposition assumed by Myerson about the homogeneity of the level of corruption of all the members of the formation is legitimate only in this case.

Persson and Tabellini also attempted to falsify their statement on the basis of empirical data. They took into account only democratic countries,²⁰ and the level of corruption was estimated on the basis of (1) the *Corruption Perception Index* (CPI), which is the most popular quantitative index compiled annually by Transparency International, (2) the *Control of Corruption Index* (CCI) compiled by the World Bank²¹ and (3) the estimations of the *International Country Risk Guide* (ICRG) provided by The Political Risk Services.²² In line with the intention of the authors of the CPI, Persson and Tabellini emphasize that this Index cannot be taken for analysis of the changes in the level of corruption over time. The same is true in the case of the second (CCI), thus in the panel analysis the researchers use only the third, ICRG. Despite problems with estimations of the corruption level, they conceded that the analysis of the gathered material makes it possible to prove the hypothesis of the influence of personalized election on the curb of corruption. What is more, it is also the basis to the claim that the level of corruption is influenced by the electoral threshold and the scale of multi-member districts. According to the authors the decrease in the level of corruption will benefit from lowering electoral thresholds and the increase in the number of seats in the districts. The conclusion seems to confirm Myerson's theses since factors taken into consideration by Persson and Tabellini may well be treated as barriers to entry on the political market. From their research it follows at the same time that, from the point of view of the curb of corruption, the size of electoral district (the number of seats) is of less importance than personalization of the election. One

²⁰ The level of democratization was assessed on the basis of the estimations by the *Freedom House*. Its reports are published on the official website: <http://www.freedomhouse.org/report-types/freedom-world>.

²¹ The official website of the World Bank providing its estimations on the subject of governing in the world (including the level of corruption index) is available at: <http://info.worldbank.org/governance/wgi/>.

²² Official website of the organisation: <http://www.prsgroup.com/ICRG.aspx>.

may than expect that the level of corruption will be lower in countries with the majority system and one-member constituencies than in countries with the PR and multi-member districts.

The conclusions on the part of Persson and Tabellini were borne out by the research conducted by Jana Kunicová and Susan Rose-Ackerman (2005), which is worth mentioning the more, since their model has been based on the CPI/CCI. It should be mentioned as well that they have considered a wide range of additional variables characterising the socio-political background. Among them the particularly significant turned out to be the one representing the type of government (presidential vs parliamentary systems). Contrary to the Myerson findings, their conclusion is that to diminish corruption the worst solution is the PR system with closed list accompanied with presidential system of government.

As regards Vincenzo Verardi (2004), who in order to estimate corruption used the data from *International Country Risk Guide*, he confirmed the thesis of the correlation between the size of constituencies and the level of corruption, however he undermined the conviction of the greater significance of a personalized election in relation to the effect of lowering barriers to entry by the use of the PR system. From his analyses it follows that the proportional systems are more favourable from the point of view of the fight against corruption than the majority systems. This conclusion is convergent to those of Myerson.

The next step in this discussion was made by those scholars who were willing to find another (better) measure of corruption. It turned out that it is possible to use juridical records, however it led towards limitation of the geographical scope of the analysis. The research by Chang (2005) and Alfano, Baraldi and Cantabene (2013) was conducted on the country level, namely Italy, with the comparisons made between its regions. The surprising outcome of those analysis was that paradoxically the PR systems with open list may nourish greater corruption than the PR system with closed list. It was explained by the growing tendency of the candidates to compete with each other, even with those from the same party, which led to grater susceptibility to accept illegal funding of their election campaigns.

It also needs to be noticed that in 2006 Myerson himself ventured to evaluate the effectiveness of anti-corruption rules applied to one-member districts. In his study he included the following systems: majority, Borda, approval and negative voting.²³ He tried to investigate which of the systems allows for the best way to reconcile counteracting corruption with the need for the election to be representative and he named the approval voting. Like the previous articles, his analysis is conducted on a purely theoretical level without the creation

²³ The system of *negative voting* is the opposite of approval voting – the voter designates the candidates that he or she rejects, ordering them from the most to the least preferable.

of econometric models and confronting the conclusions with the estimation of the level of corruption for particular countries. However, in the case of comparison of the above-mentioned electoral systems the attempts to confront theoretical conclusions with empirical ones from the beginning would be doomed to fail as the approval and negative voting systems have not been used in any country as yet.

Conclusions

In the economic literature devoted to the analysis of the correlation between the shape of electoral systems and corruption there is no denying that such a relationship exists. Economists also agree that eliminating the abuse of power by people holding public offices benefits from lowering the barriers to entry on the political market and personalizing of the election. However, the consensus has still not been reached as regards the significance of particular rules building up an electoral system for the decrease of corruption, which makes it impossible to unambiguously state which electoral system would from this point of view be better.

It has to be emphasised that a characteristic element of the analysed publications is the drive for formalising and quantifying, equipping the analysed categories with a numerical measure. The approach can be referred to as a sign of the times since it is appropriate for the majority of the mainstream economics. Taking into consideration the data which is quantitative in character makes it more difficult, or even impossible, to make use of the well-developed methods of statistical inference and econometric analysis. It seems that as regards the analysis of corruption, the precision attained through the construction of quantitative indexes that aim to characterise such a difficult and complex phenomenon may only be ostensible.

What is more, it also needs to be noticed that in the analysed works there is a visible tendency to concentrate only on the perception of the correlation between the shape of the electoral system and corruption without putting this relation in a bigger context (except for Kunicová and Rose-Ackerman). Although theoretical consideration on the subject allows for such a limitation of perspective, it calls for complementation as regards the attempts to actually change the current electoral law. Starting with the fundamental issues, the question might be posed as to whether in countries with a high level of corruption a reform of the electoral law could be a solution – according to the purport of Myerson's analyses – i.e. lowering the barrier to entry on the political market. This issue seems to be more complex, as such a change of electoral system could lead to fragmentation on the parliamentary scene, which would make the process of

appointing a government more difficult and – in the long run – it would make governing more difficult too. This kind of a simple cure for corruption would, in this way, prove to be more dangerous than the disease itself.

When referring to the works of economists researching the correlation between the 'rules of the electoral game' and the level of corruption one has to take into account the fact that their very improvement is only one of the elements that may contribute to the weakening of the incentives that induce politicians to abuse power.

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