The Current Economic Situation: No Moral Core

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In Adam Smith's seminal work, *The Theory of Moral Sentiments*, he in essence lays the philosophical foundation for his later work, *An Inquiry Into The Wealth of Nations*, when he states that, "How selfish soever [sic] man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it" (Smith, 1776/1998, p. 3). It is argued in this book that Adam Smith never envisioned a day when the self-interest he articulated in *The Wealth of Nations* would operate in the absence of any basic moral sentiments and what he called sympathy for the plight of the other. To fully understand Smith's arguments in *The Wealth of Nations*, they must be interpreted in the context of his core belief in the innate empathy one person naturally has for the basic wellbeing of his or her fellows.

Unfortunately, contrary to Smith's foundational assumptions concerning the inherent concern people have for one another, as well as recent research on the subject that appears to affirm his assumptions (Rifkin, 2010), and as previously stated in this book, the ultimate cause of the current economic situation in the U.S., as well as other developed capitalistic countries, is the lack of any discernable moral core to the practice of neoliberal, capitalistic economics. Agreeing with this assessment Martin Wolf, Financial Editor at the Financial Times writes,

> We are living through the first crisis of our brave new world of securitized financial markets. It is too early to tell how economically important this upheaval will prove. But nobody can doubt its significance for the

> financial system. Its origins lie with the credit expansion and financial innovation in the U.S. itself. It cannot be blamed on 'crony capitalism' in peripheral economies, *but rather on irresponsibility in the core of the world economy*. (Wolf, 2007, Para. 4 emphasis mine)

Unfortunately, with the hindsight provided by three years of economic crisis since his prophetic statement, the world has experienced just how significant the upheaval is and, indeed, it would seem that in the aftermath of the crisis one of the revelations that has been progressively understood is just how morally vacuous the core of current economic practice is. According to David Korten (1999), "A healthy market economy relies on more than profit and market competition; it must operate in the context of both an ethical, life-affirming culture and a sound framework of public policy and regulation" (p.154). Moreover, Korten warns, "It is ludicrous to presume it possible to have a good society with an economy in which the players are freed of all moral obligation beyond maximizing the bottom line" (p. 154). And yet, that is exactly where we find ourselves today. Not only have we lost any sense of a moral economy, our economic practice has also been removed from the context of basic human realities.

During the twentieth century there was a progressive dichotomization of economic theory and practice by which moral philosophy was excised from mainstream economic "science" and, moreover, the relationship of economics to social ontology utterly ignored in favor of the prevailing emphasis on rationalistic, deductivist, mathematical modeling. Much of this modeling is based on assumptions that do not bear any resemblance to actual social reality. According to Peter Koslowski (2002), of the Hannover Institute for Philosophy, in the current practice of economics, "Morality of an economic system looks like a contradiction in terms. The economy as the system for the provision of material goods ought to meet economic, not moral norms" (p. 43). He continues his critique of the current economic paradigm by stating, "[It is thought] for the sake of efficient production and distribution the economy even ought to be kept free of well intended, but hindering, moral reasoning" (p. 43). Conversely, Koslowski states that, "In traditional, pre-modern societies economic action is inseparably connected with religious, family, and political action. It is not until the rise of capitalism that the economy becomes an autonomous sphere of society" (p. 43). The question of the morality of capitalism cannot be, according to Koslowski, "Is capitalism moral? Rather, the question must be: Is capitalism justifiable under the conditions of human nature and the scarcity of resources" (p. 44). In essence what Koslowski is arguing is that the moral core of economic practice becomes vacuous when it is removed from the context of metaphysics and social ontology. As long as economics is seen as a mathematical science based in purely rationalistic assumptions, the question of its morality is rendered moot. As a result, current neoliberal economic thinkers and practitioners have little to say about the morality and ethics of the social devastation these mathematical models have manifested in the real world, though these crises have become a regular and cyclical byproduct of this economic methodology.[1] Moreover, in just under thirty years the social devastation and chaos created by mathematically oriented, neoliberal capitalism is astounding. For a brief example see the table 2.1 below:

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[1] In America there have been recurrent economic panics or full-blown crises in 1873, 1893, 1909, 1929, 1987, 1999, and most recently in 2007-08, most of which had global implications as well. Roughly an economic crisis occurs on average every 21.6 years. Also see Naomi Klein's "The Shock Doctrine," 2007.

U.S. Financial Mercantilism: Bailouts, Debt, and the Socialization of Credit Risk, 1982-2007 (Table Adapted from Phillips, 2008, p. 57)

Year	Rescue	Government Response
1982-92	Mexico, Argentina, Brazil debt crisis	Federal Reserve and Treasury relief package to avoid domino effect on U.S. Banks.
1984	Continental Illinois bank Aid	$4 billion Fed, Treasury, and FDIC rescue package.
Late 1980's	Discount window bailouts	Fed provides loans to 350 weak banks that would later fail, giving big depositors time to exit.
1987	Post –stock market dive rescue	Massive liquidity provided by Fed, and rumors of Fed clandestine involvement in futures market.
1989-92*	S&L bailout	U.S. spends $250 billion to bailout hundreds of S&Ls mismanaged into insolvency.
1990-92	Citibank and Bank of New England bailouts	$4 billion to help BNE, then government assistance in arranging a Saudi infusion for Citibank.
1997	Asian currency bailout	U.S. government pushes IMF for rescue of embattled East Asian currencies to save American and other foreign lenders.
1998	Long-term Capital Management bailout	Fed chairman Greenspan helps arrange bailout for shaky hedge fund with high-powered domestic and international connections.
1999	Y2K fears	Liquidity pumped out by Fed to ease Y2K concern helps fuel final NASDAQ bubbling.
2001	Post-stock market crash rate cuts	Fed cuts U.S. interest rates to 46-year lows to reflect U.S. financial and real estate assets and protect the U.S. economy's newly dominant FIRE sector.
2007	Structured investment vehicle and subprime mortgage bailouts	Treasury Secretary Paulson proposes super-SIV fund to rescue top banks and negotiates subprime mortgage relief mechanism.

In virtually each of the cases cited above, greed, rampant speculation, and mismanagement and, in some cases, unethical and illegal behavior catalyzed the crisis. Moreover, many of the government methodologies employed to deal with the crisis were not subject to sufficient transparency and/or public accountability.

Cambridge economist Tony Lawson, in his work *Reorienting Economics* (2003), sees the tendency for economic practice to be disconnected from social ontology as one of its greatest and most problematic deficits. Additionally, Lawson sees an inseparable correlation with this disconnect between social ontology and morality. To ignore social ontology is to ignore metaphysical realities that are an inherent aspect of social reality thus leaving economic practice without any discernable moral core. Lawson provides his critique of current economic practices:

> First, for anyone with interest in metaphysics, it does not take too much familiarity with our discipline (economics) to recognise a continuing failure of modern economists to examine the nature and consistency, etc., of the ontological (and other) presuppositions of their various pronouncements on, and decisions concerning, matters of substantive theory and method. (Lawson, 2003, p. 66)

Lawson continues by stating that, "In brief, the primary failing of modern economists is ontological neglect. It is in this specific sense especially, in my view, that most economists are not being realist enough" (p. 68). Lawson's colleague, economics professor Paul Ormerod, also passionately argues that one of the most prominent weaknesses of current economic theorizing and practice is its isolation from the very real, practical issues of the day.

> Contemporary orthodox economics is isolated. It is isolated from its roots in the late eighteenth and early nineteenth centuries, when economists were by no means afraid to theorize, but did so purely to illustrate and understand the great practical issues of the day. Its method of analysis is isolated from the wider context of society, in which the economy operates, and which Adam Smith believed to be of great importance. And its methodology, despite the pretensions of many of its practitioners, is isolated from that of the physical sciences, to whose status it none-the-less [sic] aspires. (Ormerod, 1997, p. 21)

Not only have the mathematical inclinations of economics left it isolated and separated from social ontology and practical social reality, according to Ormerod, it is also separated from the physical sciences it has attempted to use as a foundation for this new dismal science.

Speaking of reality, this lack of a moral core and radical disconnect from any social ontology has been acutely illustrated by the 2008 financial meltdown in the United States. In the aftermath of the crisis, as Wall Street again began doling out obscenely high tax-payer-subsidized bonuses to the very perpetrators of the crisis, authorities began to take a closer look at the behavior of these financial magicians. On April 16, 2010, the United States Securities and Exchange Commission (SEC) filed civil fraud charges against the venerable investment-banking firm Goldman Sachs as a result of their participation in the subprime mortgage securities crisis and their alleged role in the crash of the U.S. economy. The government accused Goldman Sachs of defrauding investors by failing to disclose conflicts of interest related to mortgage investments it sold as the housing market was rapidly failing. In the complaint, the SEC alleged that Goldman Sachs was promoting and selling financial instruments based on securitized mortgage debt, representing the investments in a positive light, all the while they were betting against the very same investments to fail. Ultimately, when the U.S. housing market collapsed, this alleged fraud cost investors in excess of one billion dollars, while Goldman Sachs made money on the venture (AP/ Huffington Post, 2010). In explanation of the alleged fraud, finance expert Sylvia R. Raynes told the New York Times, “When you buy protections against an event that you have a hand in causing, you are buying fire insurance on someone else’s house and then committing arson” (AP/ Huffington Post, 2010, para. 6). Moreover, SEC Enforcement Director

Robert Khuzami stated that, “The product was new and complex, but the deception and conflicts are old and simple” (AP/Huffington Post, 2010, para. 11). Further describing the actions of Goldman Sachs, Khuzami said, “Goldman wrongly permitted a client that was betting against the mortgage market to heavily influence which mortgage securities to include in an investment portfolio, while telling other investors that the securities were selected by an independent, objective third party” (AP/Huffington Post, 2010, para. 12). In other words, Goldman Sachs engaged in these unethical behaviors motivated by naked greed with no regard for how they might impact average Americans, or indeed the larger economic landscape.

During questioning before a congressional committee investigating the alleged fraud, Lloyd C. Blankfein, Goldman Sachs’ CEO, denied feeling any regret or remorse over the fact that Goldman clients lost in excess of $1Billion on these transactions while Goldman pocketed over $4 Billion in profits. He also refused to concede that any of the firm’s activities were even marginally unethical or immoral. Even after Senator Carl Levin, Chair of the committee, read internal Goldman emails where employees admitted that the investments were ‘shitty deals’ for investors, but provided opportunities for Goldman to make a load of money from betting against them, the CEO was implacable. After Blankfein’s less than forthcoming testimony, one of Goldman’s mortgage traders, Joshua S. Birnbaum, an architect of the scheme called “Abacus,” sat smugly before the committee exhibiting a near constant sneer, responding to every question with equivocations, evasions, and arrogant non-answers. He, too, refused to admit to any feelings of remorse or regret over the performance of Goldman Sachs.

Wall Street Investment Banks, fueled by billions of dollars in taxpayer bailouts, engaged in behavior destructive to an extremely large percentage of the American public, while benefiting a very small number of financiers. So, while the U.S. was experiencing the worst financial crisis since the Great Depression and Americans were losing their jobs and homes in record numbers, Wall Street's investment banks were taking full advantage of the crisis and dolling out millions of dollars in bonus money to the very individuals responsible for the crisis in the first place.

> Writing more than 200 years ago, Adam Smith warned that,
> This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect, persons of poor and mean condition … is at the same time, the great and most universal cause of the corruption of our moral sentiments. That wealth and greatness are often regarded with the respect and admiration which are due only to wisdom and virtue; and that contempt, of which vice and folly are the only proper objects, is often most unjustly bestowed upon poverty and weakness, has been the complaint of moralists of all ages. (Smith, 1759/2000, p. 84)

During the later half of the twentieth century, as western developed countries have become increasingly embedded in a pervasive culture of materialism and consumerism, this admiration for the wealthy and powerful has not only increased since Smith's time, but seems to have become the ultimate goal toward which many members of society direct their greatest energies and passions. As a culture we have become obsessed with the wealthy, powerful and even the famous – which are usually to some extent both rich and powerful. Most often this obsessive admiration ignores the moral underpinnings of these objects of our affection. We are not so much concerned with *how* they became rich and powerful as we are with the fact that they *are* rich and powerful. Again, Smith weighs in on this social phenomenon when he states,

> In equal degrees of merit there is scarce any man who does not respect more the rich and the great [famous] than the poor and the humble. With most men the presumption and vanity of the former are much more admired than the real and solid merit of the latter. It is scarce agreeable to good morals, or even to good language, perhaps, to say, that mere wealth and greatness, abstracted from merit and virtue, deserve our respect. We must acknowledge, however, that they almost certainly obtain it … [However] these exalted stations may, no doubt, be completely degraded by vice and folly. (Smith, 1759/2000, p. 85-86)

Such has certainly been the case over the course of the last thirty years at least. Unfortunately, the utterance of the fictitious and fabled Gordon Gecko, that "Greed is good," in the 1987 film *Wall Street,* seemed to be immediately absorbed by the collective subconscious of American society, if not of the entire capitalistic world, to create real world doppelgangers such as junk bond king Michael Milken, Enron's Kenneth Lay and Jeffery Skilling, Bernard Ebbers of WorldCom, and more recently such financial wizards as Lloyd Blankfein of Goldman Sachs, to mention only a few of the more prominent examples.

These 'Geckoites' and their unseemly financial practices have created a tremendous disconnect between Wall Street and Main Street that has not only led to greater inequality in the wealth distribution of developed countries, but also a rapidly growing social unrest among those who have found themselves relegated to the lower reaches of the wealth scale.

The Disconnect Between Wall Street and Main Street

In December 2009, Former United States Secretary of Labor and current University of California, Berkeley Professor of Public Policy, Robert Reich, wrote an article entitled, *2009: The Year Wall Street Bounced Back and Main Street Got Shafted*. In the article Reich argued that the United States economy is suffering from a seriously flawed Janus-faced economy; one face being that of Wall Street and the other Main Street. "If 2009 has proved anything," Reich wrote, "it's that the bailout of Wall Street didn't trickle down to Main Street. Mortgage delinquencies continue to rise. Small businesses can't get credit. And people everywhere, it seems, are worried about losing their jobs. Wall Street is the only place where money is flowing and pay is escalating" (Reich, 2009, para. 7). Within one year of the massive tax-payer bailouts that saved the country's largest banks from failure, Reich concluded that, "The five largest remaining banks are today larger, their executives and traders richer, their strategies of placing large bets with other people's money no less bold than before the meltdown" (Reich, 2009, para. 3).

Moreover, during the junk bond fueled eighties and the dot-com driven nineties, the "Wizards of Wall Street" created a financial sector of the economy that grew to an unhealthy percentage of Gross Domestic Product (GDP). By 2005 the financial sector of the economy far exceeded all other sectors, totaling over 20% of GDP, while manufacturing shrank to an anemic 12% (Phillips, 2008). Today, according to MIT professor and economist Simon Johnson (2008) the six major banks in the United States have balance sheets that represent 60% of the U.S. Gross Domestic Product (GDP). These banks got bigger during the financial crisis because they were willing to take unprecedented risks, knowing that from the government's perspective they were "too big to fail," and could count on taxpayer bailouts should their risks be misplaced.

The vast majority of the financial products that have been created by Wall Street to fuel this financial growth have been of no real benefit to the lives of people living on Main Street in the real economy, but rather were created for the sole purpose of enriching the country's financial elite. In fact the exotic new financial products created by Wall Street such as negative amortization mortgages, interest-only mortgages, sub-prime mortgages and Alt-A loans, not to mention derivative markets, credit default swaps, and hedge funds, have in fact been financially devastating to many Americans. Though many of these financial products and their forebears, such as the leveraged buyouts of the eighties, have served to fuel unprecedented growth in the stock market during the last ten years, driving the Dow Jones Industrial Average from 8,000 in 1998 to a whopping 42% increase of 14,000 plus in July, 2007, the vast majority of that wealth, according to Robert Reich, has been going to a relatively small number of people at the top, and the morality of such financial wizardry is finally being called into question. (Reich, 2009)

During the first decade of the twenty-first century, at the same time as this unprecedented growth of the stock market, there was actually zero net job creation for the first time in sixty years in the U.S. (Irwin, 2010, p. 1A). While the stock market seemed to indicate that America's corporations were growing and expanding during this ten-year period, there were no new jobs created – surely there could be no greater indicator of the extreme disconnect between Wall Street and Main Street! Unfortunately, this paradoxical phenomenon also reveals a serious, systemic flaw in the

American economy. As the financial sector of the economy continues to grow as a percentage of GDP and the manufacturing sector continues to shrink, we increasingly become a nation at financial risk. According to the most recent statistics of the federal Bureau of Labor Statistics, (BLS, 2003) it is estimated that an additional 1.2 million manufacturing jobs will vanish by 2018, in addition to the 2.1 million factory jobs lost since the recession began in 2008. This rapid shift from a manufacturing based economy to a financially driven economy does not bode well for the future of America – particularly when that financial growth is created by morally and ethically questionable means.

> According to Kevin Phillips (2008), a nation's economy is in danger,
> When a leading world economic power passing its zenith – before the United States, think Hapsburg Spain, the maritime Dutch Republic, and imperial Britain just before World War I – lets itself luxuriate in finance at the expense of harvesting, manufacturing, or transporting things. Doing so has marked each nation's global decline. (p. 20)

True to Phillips' prognosis, the U.S. is beginning to see the initial signs of decline as manifested in soaring trade deficits, unsustainable national debt, and the continued decline of the U.S. dollar against major world currencies.

In fact, unprecedented levels of national and individual debt have spurred the majority of recent economic growth. According to the International Monetary Fund's Organization for Economic Co-operation and Development (OECD), the United States' gross national debt in 2010 was 92.6% of Gross Domestic Product (GDP) and its current budget deficit was 11% of GDP, demanding yet more debt to simply balance the national books. The International Committee of the Fourth International (ICFI), which publishes the World Socialist Website, reported in 2004 that,

> US consumer debt has reached staggering levels after more than doubling over the past 10 years. According to the most recent figures from the Federal Reserve Board, consumer debt hit $1.98 trillion in October 2003, up from $1.5 trillion three years ago. This figure, representing credit card and car loan debt, but excluding mortgages, translates into approximately $18,700 per US household. Outstanding consumer credit, including mortgage and other debt, reached $9.3 trillion in April 2003, representing an increase from $7 trillion in January 2000. The total credit card debt alone stands at $735 billion, with the household card debt of those who carry balances estimated to average $12,000. (Laurier, 2004, para. 1)

In February 2009 the Federal Reserve Bulletin (Dynan, Johnson & Pence, 2009) reported that the overall median and mean values for family debt in the U.S. rose 11% between 2004 and 2007, resulting in 77% of all American families carrying household debt. When it comes to individual consumer credit card debt the mean level rose 30.4% between 2004 and 2007 to $7,300 per card (Dynan, et al, 2009, p. A45).

A question that must be asked in the current economic context is at what point does debt become immoral? When people take on credit card debt without the means to pay off the monthly balance or consumer loans without the means to responsibly service that debt, one must question the morality of such decisions. When manufacturers and Madison Avenue conspire to emotionally manipulate consumers into buying what they don't need, with money they don't have, who should bear the moral responsibility for what is ultimately sure to be financial disaster? Moreover, when does government debt become immoral? More pointedly, when does government debt intended to stimulate consumer spending (much of it fueled by debt), without the future means to service or pay off that debt, become unethical or immoral? These are questions that not only are not asked in the practice of neoliberal capitalism, they are questions that have no ready answers. All the while debt levels, both individual and national, continue to spiral out of control, providing further evidence that our current economic practice is morally vacuous at its core.

Ultimately, this lack of any moral core to the practice of unregulated, neoliberal capitalism has had significant negative consequences for the U.S. economy, and a failure to infuse our current system with a basic moral core, beyond the additional policing provided by more government regulation, will result in an increasingly chaotic economic situation.

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