These days, ethics seem to be making inroads into every domain, as we now have ethical trade and ethical finance, businesses adopt ethical charters and concern for future generations is a ubiquitous feature of all environmental and other speeches. And yet capitalism is in a real mess. Never has the “love of money”, as Keynes would describe it (or a thirst for gold, as it would have been described in olden times) taken us to such extremes, with the most wealthy earning extravagant incomes and hopes of fanciful returns being realised, while global poverty has soared to obscene levels, inequality has reached new heights and the environment has suffered severe damage. To sum up, there are only two possible ways to explain this paradox: either the rise of ethical considerations is a reaction to the wretched spectacle of the moral and social consequences of an economic world devoid of ethics, or it is the cornerstone of a new marketing strategy intended to satisfy even more effectively the desire to accumulate capital. Moreover, these two possibilities are not mutually exclusive.

Hence the major gulf between capitalism and ethics at the present time should not come as a surprise. Understanding this gulf is no easy task. Is a lack of ethics what has driven capitalism to the brink of disaster? In this case, ours would almost be a morality tale, with greed and avarice being the most “toxic” of assets in global finance. But private vices have not become public virtues, as Mandeville and Adam Smith posited. Admittedly, the rich may have lost a great deal, but the poor have lost everything, and others who were not in or who had escaped poverty now expect to lose their livelihoods.

Even so, we cannot lightly dismiss the assumption that obliviousness to ethics, both now and in the past, has sparked the crisis in the system. According to Keynes, “the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes.” On what basis can we make such a moral judgement about the state of the world? Or put another way, doesn’t economics, like science, make itself out to be quintessentially exempt from all ethical considerations?
Free market democracy has become imbalanced

The unrelenting shift from economics as a moral and political science towards economic science, a branch of applied mathematics, could have us believe this, especially since this transition has been crystallised in the concept of market economics, which is apparently free of any historical or institutional connotations. Nonetheless, capitalism is one specific historical form of organisation, which arose from the rubble and political turmoil of the Ancien Régime. As Marx would say, it is one mode of production—it is not the product of immaculate conception or of spontaneous genius. And its destiny is not written in stone. To sum up, its fortunes are intimately related to the political arena. It is this interdependence between the rule of law and the production and distribution of goods and services that gives capitalism its unity. The autonomy of the economy is thus an illusion, as is its ability to self-regulate. And we are in the current mess because the scales have tipped slightly too far in favour of this illusion.

From an ethical standpoint, this shift in the balance represents an inversion of values. Ethics, it was believed, would be better served if the workings of governments were regulated more tightly (especially in Europe, although the theory originates in America) and if the markets were deregulated to a greater extent. The ingenuity of the capital markets initially, then their blindsightedness, did the rest. There is not even any need to highlight at this point the ethical failing implicit in the big lie and arithmetic impossibility of the promise made by financial institutions to pay all their customers an above-average return. Perhaps it was merely incompetence? Or perhaps, as Paul Krugman has noted recently, lawful financial activities did not prove in the end to be morally superior to Bernard Madoff’s.

In any event, contemporary capitalism’s ethical shortcomings can be traced back to the inversion of the hierarchy between politics and economics, and to what, in many cases, is the outright subordination of the former to the latter, as in a good number of developing countries. “Democratic activity consists primarily in drawing the line between what must be equal and what can remain unequal. For this very profound reason, politics and administration are not one and the same. The very purpose of politics is to debate norms of justice.” The great ethical scandal of our times is the globalisation of poverty, including in very affluent countries. What is even more scandalous is the acceptance of an intolerable level of inequality by democratic regimes. This is because our system is based on tension between two principles, firstly, the market and inequality (1 euro, one vote), and secondly, democracy and
equality (one man, one vote), which leads to a never-ending search for a go-between or a compromise.

“As a result, there are two mechanisms by which resources can be allocated to uses and distributed among households: the market and the state [...]. Hence, the allocation of resources which individuals prefer as citizens does not in general coincide with that at which they arrive via the market. Democracy in the political realm exacerbates this divergence by equalizing the right to influence the allocation of resources [...]. Endowed with political power in the form of universal suffrage, those who suffer as a consequence of private property will attempt to use this power to expropriate the riches: in the modern language, if the median voter is decisive and if the market-generated distribution of income is skewed downwards, as it always is, majority equilibrium (if one exists) will call for a greater equality of incomes.”

However, we could equally well state that a combination of these mechanisms theoretically leads to less extreme results and to less stark income inequality, to the benefit of the system itself. The tension between the two principles is indeed dynamic because it enables the system to adapt, rather than to break, as systems governed by a single organisational principle (the Soviet system) generally tend to do. Only institutional forms that evolve can survive; the others wither away. Put another way, the theory that capitalism has survived as a dominant form of economic organisation only thanks to democracy rather than in spite of it, intuitively appears to be far more compelling. We have a fresh illustration of this at present.

A normal hierarchy of values thus requires the economic principle to be subordinate to democracy rather than vice versa. The criteria generally applied to judge the wisdom of a policy or a reform are based on economic efficiency. Dan Usher² proposed another criterion. Is a particular reform likely to strengthen democracy or to weaken it, to increase or decrease support among populations for the political regime? That this is the right criterion is now self-evident. In the name of what supposed efficiency are people being obliged to show a lesser degree of solidarity than they wish to display? “Market democracy” in the sense that I use the term thus implies a hierarchy between the political system and the economic system, and thus autonomy in society’s selection of its economic organisation.

---

The relationships between democracy and the market are thus more complementary than a source of conflict. By preventing market-based exclusion, democracy increases the legitimacy of the economic system, and the market makes for a greater level of backing for democracy, by limiting political control over people’s lives. Accordingly, each of the principles governing the political and economic realms are limited and are also legitimised by the other. In the first edition of the Palgrave dictionary (1894-1899), J.B. Clark wrote: “The primary fact of economics is the production of wealth. The division of the product among those who create it is secondary in logical order, and in a sense, in importance. Yet the most important subject of thought connected with economy is distribution. If the term is used in a sufficiently broad sense, it designates all the economic processes the solution to which presents moral problems. Not only does social peace depend on the solution to the ethical problem of the division of income, but also the productivity of industry…”

The ethics of the future

The spectacle of easy money, when the primary value is capital accumulation, clouds time perspectives. Abnormally high financial returns contribute to the depreciation of the future, to impatience with the present and to disenchantment with labour. There is no need to cite the Old Testament, Aristotle or Thomas Aquinas to illustrate the extent to which relationships between financial returns and morals can be problematic. It is sufficient to refer to Adam Smith, the author of the Wealth of Nations, rather than that of the Theory of Moral Sentiments. He argued for tight control of interest rates for a reason similar to that I have just underlined, i.e. the depreciation of the future. “If”, wrote Adam Smith, “the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent, the greater part of the money which was to be lent would be lent to prodigals and projectors, who alone would be willing to give this high interest.”

Whether it is caused by intolerable demands for abnormally high financial returns (past) or interest rates (today), the depreciation of the future is at odds with the inevitably long-term horizon of democracy. This contrast is prejudicial to the provision of essential public goods by states and notably those satisfying the needs of future generations.
The well-being of present generations may be separated analytically from that of future generations and may even be enhanced at the latter’s expense. In other words, there is theoretically a political trade-off between the two. One of the keys to this trade-off is the social rate of time preference, which, for instance, Nicholas Stern chose to set at 0. This rate should of course be determined through political debate, i.e. democracy. Relationships between generations are not so straightforward that an assumption of generalised altruism can be made. Nevertheless, there is a field in which the well-being of present and future generations can be considered as more complementary than alternatives, and that is social justice. Though not sufficient in itself, the latter appears to be a necessary condition for inter-generational altruism. We can see at least two reasons for this, the first of which is more conjecture-based and the second more constraint-based. In a society in which a sentiment of injustice prevails and a tendency towards self-withdrawal and conflict dominate, it appears to us that there would be little room for inter-generational altruism. It would be hard to posit that vertical (intergenerational) equity would be a concern for society in a world in which there is no place for horizontal (intra-generational) equity. This is another way of emphasising that the economy cannot be entirely autonomous and must be open to the political system.

The second reason relates to the state of inequalities. Where these are strong, a large section of society can barely look ahead to the future, even if it wishes to do so. The constraints of daily life keep it firmly imprisoned in the present. The environmental question could then boil down to which policies are necessary to enable every citizen to look ahead to the future. Based on an optimistic assumption that intergenerational altruism is a spontaneous “moral sentiment”, as the extremely high level of attention paid by all parents to their children’s future seems to indicate, it is clear how a reduction in inequalities may be able to reconcile capitalism with a long-term view. The affluent sections of the population can afford to concern themselves with future generations. Those who are less or not at all affluent are prevented from doing so–irrespective of the sacrifices they make in the present in certain cases. If we consider that production is the result of cooperation between all members of society, it is a truism to say that the rich benefit more from this cooperation than the poor! The means of looking ahead to the future should then figure among the Sen’s capabilities or primary goods based on Rawls’ definition, i.e. “things that citizens need as free and equal

---

3 The pension conundrum provides ample demonstration of the weakness of this assumption!
persons” living a full existence. It is evidently within the realm of democracy that these dimensions of social justice interact.

**Proposals: deregulate democracies, debate inequalities**

To sum up, to restore capitalism’s ethical credentials, the current turbulence should be used as an opportunity to break free from the conceptual underpinnings of the doctrines of the past, which have led us to the severe turmoil of the present day.

To restore hope in the future, “democracies need to be deregulated”, i.e. more room needs to be made for political determination and the markets need to be better regulated. This reversal in the current hierarchy will rehabilitate the long term and foster state investment in global public goods, which constitute “primary goods” or “capabilities” for the population of the planet.

More attention should also be paid to debating norms of justice, which represents the key factor differentiating democracy. In this regard, I propose to make the acceptable degree of inequality the subject of an annual public debate by parliaments. This discussion, which should be informed by statistical institutes and studies by researchers, would have the tremendous benefit of stopping democratic societies from drifting towards an intolerable level of inequality without any checks or balances and without public awareness being raised. There is a fairly high degree of variation in forms of capitalism, with some being more ethical than others. The reporting of such debates and their seriousness would help to put an end to negative social and tax competition, which is detrimental to public goods, and actually offer the hope of positive competition.