

ETHICS AND ECONOMICS

Wirtschaft und Ethik: Maßstäbe wirtschaftlichen Handelns aus biblischer und ökonomischer Sicht *(Economics and Ethics: Ethical Benchmarks for Economic Behavior from a Biblical and Economic Perspective)*

Werner Lachmann

Berlin, Germany: LIT Verlag, 2006 (304 pages)

Even when this recently revised book appeared for the first time in 1987, its topic was red hot. Since then critiques of capitalism have not subsided. With the breakdown of communist planned economies, with the implementation of liberalization and deregulation policies, and with cost-saving innovations in transportation and communication, a global capitalism has come into existence, which has in turn brought the globalization critique into prominence. Efficiency failures of the market system, such as the too-rapid extraction of fossil energy resources and the associated emission of greenhouse gases, have now become evident on a global level. More and more top managers strive to prevail in fiercer international competition through illegal and immoral activities. Scandals of corruption, bribery, and misappropriation among the ranks of business leaders are highlighted by mass media and national political figures so as to denounce the global market economy as an immoral system.

While this accusation is not new, it is worth reconsidering it from the interdisciplinary perspective of economics and ethics, the main title of Werner Lachmann's book. The book focuses on the question of how and to what extent economic activities in societies with a highly developed division of labor can be judged from an ethical point of view, as

well as on how moral values influence the economic behavior of individuals and groups in competitive markets.

After a short introduction to the subject, Lachmann offers an overview of the necessity and the consequences of economizing scarce resources. He describes economic behavior within the framework of a market economy in chapter 3, and the chances and limitations of a public system of social support in chapter 4. In the next chapter, he deals with recent economic problems from the perspective of an ethics of economic systems (orders). Economic behavior in the face of God is the content of chapter 6, which is followed by an epilogue containing an overview over the interdependences among personal belief, society, and the church.

Lachmann believes that criticism of the market system is largely misplaced because critics often ignore fundamental economic principles. The author suggests that this applies especially to members of those Christian churches that reject the capitalist economic system for ethical reasons. Therefore, the book's objective is to promote a better knowledge of the market order, its inherent forces, and the interdependences between markets and morality.

In chapter 3, Lachmann first argues why economic activities under an extended division of labor cannot take place without a proper set of impartial rules and institutions that foster economic cooperation among persons without intimate social ties. Given the institutional infrastructure of the market system, the author then describes the working of the market mechanism with its interplay of prices, competition, profits, and losses. To overcome inefficiencies in the production of public goods and to combat inefficiency caused by negative external effects within existing property rights, the latter have to be adapted by national and international politics to economic scarcities hitherto not addressed by the prevailing system of market prices. To even out income inequalities arising from the market process, Lachmann welcomes the original German policy concept of a "social market economy" aiming at a reconciliation of market competition and social balance by means of a public redistribution policy. However, the author also notes that, contrary to the vision of its founders, the Social Market Economy started to develop more and more into a welfare-state from the 1960s onward, thus neglecting its fundamental principle of subsidiarity. As a consequence, growth of total factor productivity and economic efficiency diminished. Personal initiative and the individual incentive to face the risks of economic progress were distorted. In the meantime, the costs of the exaggerated social support system and the enormous tax burden it requires have become so high that it must be seriously questioned whether the system can be financed in the long run. Moreover, the autonomous moral decline of Western society has also contributed to the fact that recipients often abuse public assistance for purposes not designed by the welfare state.

At this point, the interdependence between market and morality becomes evident: Pursuing one's own interests leads to common welfare only if the individual economic agent is a loyal and virtuous (i.e., prudent) person who respects the interests of his opponent in the market. Hence, the critique of the market system turns out not to be a criticism of the system itself, but of the failures of market participants. Clearly, the market is not able

to create individual morality; rather, the results of the market are strongly dependent on the individual morality of its participants.

The problems of asymmetric information, incentive incompatibility, and exorbitant control costs, which were responsible for the inefficiency of centrally planned systems, can also be found—though on a smaller scale—in public systems of social security and social assistance in Western democracies (see chapter 4). Every individual behaves rationally if he or she claims certain social benefits whether or not they are really needed. The overall costs are much higher than if individual claims were limited by individual responsibility and if government transfers were income-tested.

Following the insights of public choice theory and constitutional political economy, Lachmann proposes constitutional rules that limit the decision range of parliaments and administration in representative democracies with powerful special interest groups. Moreover, the author welcomes international systems competition, which limits the detrimental results of national policy and administration failures. Finally, the importance of personal morality and the pursuit of the common good by politicians and administration officials become evident.

Turning from the theory of economic and political systems to pressing problems of current economic policy, Lachmann also demonstrates the superiority of market-oriented over corporatist or bureaucratic solutions (see chapter 5). Lachmann traces high unemployment in Continental Europe back to a corporatist order of labor markets that prevents market-clearing wages and a sector-, region-, and ability-specific wage structure. He also points out the unintended economic consequences of Germany's *Entsendegesetz* of 1990, a regulation that claims equal payment for equal work on the same construction site.

Last but not least, Lachmann switches from national policy problems to the general topic of economic globalization. He investigates the economic consequences of globalization and deals with the challenges for national political decision-makers. It is worth noting that the author provides a short overview of migration from the point of view of Catholic social teaching. The author also discusses the issue of foreign aid and the question of debt relief for Third World countries. In this context, Lachmann points to the importance of Christian belief for the economic development of a country.

In chapter 6, the author explicitly turns to theological foundations of economic ethics. Profession, labor, prosperity, money, and property are viewed from the perspective of some eminent Christian theologians.

The epilogue contains a short analysis of the moral decline of Western societies. The author points out the failure of the church and the educational system to pass on the values that are indispensable for the further existence of a culture and for giving life meaning. The church especially is invited to intensify its efforts to do this. Because morality and ethical behavior are a challenge for the individual, he is advised to get the power for moral behavior from his personal relationship with God, and, to make this happen on a broader scale, all Christian believers are called upon to pass on the Good News to others. This would help to use the market and its tools for the benefit of all and to avoid the abuse of freedom of choice offered by the market to its participants.

In sum, the present book offers a stimulating plea for a renewed social market economy in the age of globalization in a vivid and easily comprehensible way. Both the institutional framework and the role of individual morality in a capitalist competitive market system are elaborated clearly. The interdependences between individual morality and market outcomes are demonstrated plainly. By adding numerous examples to his theoretical explanations, the author manages time and again to attract the reader's attention and to acquaint him with solid ideas of basic economics.

Throughout the book, the religious position of the author becomes evident, and he is not afraid to comment on various deplorable states of affairs in Western society and to support his opinion with biblical argument. His profound examination of present economic policy issues is especially informative and often makes the reader think twice and examine his own position.

This book represents a lucid introduction to the broad subject of economics and ethics and it provides an excellent guide for graduates with economics and business administration degrees to reconcile self-interest and the common good in their daily work.

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Human Development in the Era of Globalization: Essays in Honor of Keith B. Griffen

**James K. Boyce, Stephen Cullenberg, Prasanta K. Pattanaik,
and Robert Pollin**

Northampton, Massachusetts: Edward Elgar, 2006 (392 pages)

This edited collection highlights the academic contributions of Keith B. Griffen, Distinguished Professor of Economics at the University of California, Riverside and the former president of Magdalen College, Oxford. He authored thirty books and monographs and over one hundred articles on the causes and consequences of poverty in developing countries and was a major contributor to the formation and annual publication of the United Nations *Human Development Report*.

The introduction to the book provides a synopsis of Dr. Griffen's fundamental beliefs: poverty cannot be alleviated without a more equitable distribution of income and assets; civil wars are the product of "horizontal disparities across regions, ethnic groups, and other social divides"; governments act in the interest of their supporters (i.e., the rich)—this is especially true for nondemocratic developing countries where property rights are not protected and entrepreneurship and competition are restricted; "Trickle down" theories do not work; globalization should be utilized to define and guarantee "rights to food, rights to clean water, ... rights to natural resources, rights to participate in the political process"; and international transfers to developing countries should be in the form of grants not loans.