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WHAT'S ALL THIS ABOUT GREED?

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A market economy is often stigmatised as a dog-eat-dog world of selfishness, greed or general amorality. Often this criticism comes from people outside the market sector - such as university academics, public sector workers or various other parties with a claim on the government. And the criticism can be virulent: the stridency of some contemporary critics of markets fully matches the passion of Karl Marx's denunciation of nineteenth century capitalism. For instance, Professor Tim Hazledine of Auckland University advises us that the lessons of the post-1984 economic reforms are that "a system based on personal greed and the ruthless egotism of one-on-one competition is not only morally repulsive, it is also bad economics".

A first response to such an extraordinary charge might be to note a very curious asymmetry in the views of Hazledine, Jane Kelsey and the standout band of academic critics of New Zealand's economic reforms - an asymmetry that becomes more puzzling the more you think about it. When people in the private sector follow their own self interest, they are labelled 'greedy' by such commentators. But when those with a vested interest in the public sector follow their self interest, suddenly a different standard seems to apply.

Thus when teachers go on strike over a pay claim and children miss out on schooling, I have hardly ever heard the critics of markets describe teachers as greedy. Nor when public sector nurses do the same thing and get a pay rise which leaves less public money available for hip operations for needy superannuitants. Nor when university academics obtain a salary increase that pushes up student fees. Nor when tertiary students demonstrate in favour of higher taxpayer subsidies. Nor when firefighters promote a referendum to defend their feather-bedded conditions. Nor when the sons and daughters of well-off elderly people in long-term geriatric care lobby the government to remove asset tests, thus protecting the parental estate and their own future inheritance.

My purpose here is not to condemn all these examples of public sector activity, but to point to some obvious facts. All of the actions I have described are plainly self-interested, and, to the extent they are successful, various third parties are clearly the losers. So why is Professor Hazledine not falling over himself to label this public sector world of self-interested activity "morally repulsive"? After all, a member of the human race does not suddenly change into a member of a totally different and more morally elevated species by leaving the private sector for the public sector. Nor does the economic law of scarcity apply any less in the public sector than in the private sector. We cannot get something for nothing; there is no bottomless pit of resources, and when one group extracts more for itself from the public purse someone else has to pay. Indeed, arguably the most pervasive form of greed today is that of people who seek to gain other people's money by electing politicians who will take it on their behalf.

Moreover, the alleged 'greed' in the private market economy actually compares very favourably with the self-interested behaviour one sees in much of the public sector. For, unlike organised self interest in the public sector which ultimately depends on the government's coercive power to tax, the entire edifice of a market economy is founded on the idea of mutual gain. A market transaction - such as purchasing a loaf of bread or a house, taking out a bank loan or entering into a contract of employment - only takes place when both parties to the transaction expect to be better off as a result. Market exchange can take place on no other basis. A market economy is thus a huge network of cooperation, in which people are constantly making themselves mutually better off through trades with one another. People serving their fellow human beings through the provision of goods and services generate income.

The idea of mutual gain through voluntary exchange is one of those ideas which, once grasped, seems so powerful that one wonders why its significance was not recognised a lot earlier in history. For, historically speaking, the principles behind a market economy have only begun to be soundly articulated in comparatively recent times. The Greek philosopher Plato assigned a low ranking to commerce in his ideal state. Aristotle likewise tended to play down the significance of market exchange, since he saw merchants as merely exchanging what had already been produced. It was not until the verge of the industrial revolution in the late eighteenth century that Adam Smith published his classic book *The Wealth of Nations*, which described how the pursuit of profit through voluntary exchange was the social arrangement that maximised benefits to society as a whole.

In the decades following *The Wealth of Nations*, the wealth-creating potential of an economy based on market exchange under the rule of law was abundantly demonstrated. Entrepreneurs employing new technologies tapped new sources of energy, created and marketed new products, and developed whole new industries for a rapidly expanding population. Most of those who began this revolution came from modest backgrounds. Hardly any went to Oxford or Cambridge; they were not in any sense part of an establishment or an elite. By the lights of today's anti-market critics they were displaying 'personal greed and ruthless egotism'. And it comes as no surprise to learn that, in Britain at least, these entrepreneurs were often attacked as 'greedy' by intellectuals and academics of their own time. Often enough they were seen as vulgar upstarts, nouveaux riches who were destroying the old paternal order through selfishness and avarice. But we owe a huge debt to them, because they helped get under way that rise in living standards which lifted millions out of grinding poverty to the levels of advanced countries today.

Like Britain, nineteenth century America also saw people of modest background and often limited education make technological breakthroughs and create businesses that spread wealth and changed radically the material conditions of ordinary people. These early American entrepreneurs were less frequently described as greedy than their British counterparts. From Andrew Carnegie to Bill Gates, the person who starts with nothing and makes a fortune has usually been viewed positively as the embodiment of the American dream - a fact which goes a long way towards explaining why America is one of the richest countries in the world today.

But despite a popular culture favourable to the entrepreneur, the great names of nineteenth century American capitalism - Carnegie, Rockefeller, Morgan, Vanderbilt and others - did not escape attracting labels like 'robber barons' and were accused of living by a 'gospel of greed' by some intellectual and political elites. Yet this is both to undervalue their achievement and completely miss the complex motivations that drive business people. Discussing the so-called 'robber barons' in his latest book *Business as a Calling: Work and the Examined Life*, the Catholic theologian Michael Novak points out that:

> What they built was not merely for themselves. They left behind great institutions that have been socially productive for generations after their deaths. These men did more than make money; 'money-making' trivialises what they accomplished. They were not stingy misers, clutching gold coins to their breast, hoarders of gains, petty

> and avaricious and closed-minded. ... The attempt to understand them under the heading 'greed' reveals both historical amnesia and ideological distortion.

'Greed' does not explain why so many of these men turned to philanthropy, and why Andrew Carnegie progressively gave away his entire fortune. Nor does 'greed' explain the successful businessperson of today. In contrast to many with inherited wealth, most business executives do not live lives of ostentatious consumption or sybaritic luxury, like decadent Roman emperors or minor members of the royal family. Most top business executives continue to work long after they earned enough to satisfy any personal spending whims. It cannot be greed that drives such people. More likely it is the love of the job and its constant challenges.

Most of those who head New Zealand's largest companies are professional managers, not wealthy individuals in their own right. Yet there is a great deal of adverse comment on the salaries chief executives in New Zealand earn, even though they are typically far below those of their counterparts in many other countries. This criticism is surely quite misguided. Our best chief executives perform complex and demanding jobs which demand rare skills. They must understand complex financial and legal issues, the possibilities of new technologies, and the shifting demands of consumers in the markets in which their companies are operating. They must be strategic thinkers yet have sufficient grasp of detail to handle day-to-day decision making. They must also have important people skills and the judgment needed to appoint the right people to the right positions within their organisations. And they must have the personality and leadership ability to inspire and motivate teams around them, to instil a corporate culture and a corporate spirit.

It is a difficult enough job finding a person who is outstanding at one or two of these roles. If someone can perform all of them to a high degree, that person has an extremely high value to shareholders. Just a single inspired decision by an outstanding chief executive can mean far more to a firm's future earnings than that person's total remuneration in a few years of service in a top position: the peak career years of chief executives, like those of leading sports people, are usually short in number. Competition among companies to attract such business talent means that rewards to these individuals will naturally be high.

The high rewards that the best managers can earn are in essence no different from the rewards of any other individual whose skills are greatly in demand in a competitive market - a Michael Jordan, Oprah Winfrey, Jonah Lomu or Kiri Te Kanawa, for example. The difference is that we do not know how much Jonah or Dame Kiri earns - rightly, because it is none of our business - whereas the government in its wisdom has seen fit to compel the disclosure of senior executive salaries. This makes the corporate sector a special focus for envy. And when one strips away the rhetoric in which complaints about top business salaries are couched, most come down - at bottom - to that unlovely sentiment.

Yet few things are more destructive of civil society than envy. It is the most sterile of passions and through much of history has set family against family, faction against faction and class against class. Market economies have absolutely no mortgage on the generation of envy. On the contrary: societies where the state tries to allocate rewards on the basis of what people are deemed to need or deserve - an impossible task - are natural breeding grounds for envy. The former Soviet Union was ridden with it. A joke has it that an Englishman, a Frenchman and a Russian were asked what would be their wish if they knew they had only one last weekend to live. The Englishman said he would spend the time walking his dog in the woods. The Frenchman said he would spend it with his mistress in Paris. The Russian said he would like to watch his neighbour's barn burn down.

In Western countries most ordinary people (as opposed to intellectuals who purport to speak on their behalf) do not mind a society in which some earn more than others, or in which large differences of artistic, sporting and other natural talents exist. They are not compulsive equalisers. What they find harder to take with equanimity is the sight of some doing well at others' expense, or a lack of opportunities to do well themselves. Consequently, resentment flourishes during periods of economic stagnation, or when people are arbitrarily denied the opportunity to exercise their talents. Their helplessness to improve their condition strikes them as unfair.

By contrast, during periods of economic growth people see their opportunities and prospects improving and are less inclined to complain that others are doing better. Because a market economy is easily the best vehicle for generating growth, it is the best economic system for combating envy. Moreover, by providing a vehicle for upward mobility, it combats envy in the most tangible way. People can see that in the course of time they and their children will be better off. They understand that hard work, thrift, investment in skills, honesty, reliability and all the other virtues that make a person valuable in a market economy typically bring rewards to them and their families.

Some people still balk at the idea of endorsing a market economy because they see it as condoning selfishness or immoral behaviour. But that is to wholly misunderstand the market system. Markets are based not on selfishness but on self interest. When Professor Hazledine buys a loaf of bread from the proprietor of his corner dairy, both parties are better off. Both have clearly acted in their own self interest but it is hard to see how either could be described as acting 'selfishly'. A market economy is in essence that type of transaction repeated in millions of different circumstances. And the great majority of us - critics and supporters of markets alike - act in our own self interest in economic matters. We budget, compare prices, snap up a bargain when we see one, and sell our labour to the highest bidder (other things such as job satisfaction being equal). Surely none of this is selfish, immoral or greedy.

To observe as a factual matter that people routinely act out of self interest does not exhaust the question of how any of us *should* behave in all circumstances. The Scottish philosopher David Hume famously pointed out that you cannot derive an 'ought' statement (such as an ethical maxim) from a mere factual description of how things are. But in thinking about the best social institutions, we are well advised to take into account human nature, not as we might like it to be but as it has actually come to evolve in the real world. A social system such as a market economy, which enables people to pursue their self interest through cooperating with others, fits human nature better than systems that assume no role for self interest. Moreover, it helps reinforce moral values, since moral conduct is in the long run more in keeping with probabilities of success in business than immoral conduct. However, both the economy and society ultimately rely on moral foundations which are independent of any economic system.

Those who still find a market economy based on self interest aesthetically unappealing should ask themselves this question: how would a different rule actually work better? Would it really be feasible to try constantly to maximise other people's interests, rather than our own? We know our own interests far better than we know other people's. How would we find out what other people's interests are, and how would we go about advancing them? And whose interests would we give priority to? The information and coordination problems in a world where some class - perhaps the intelligentsia or nomenclatura - is running everyone else's life are formidable compared to those of a market system. Of course a central planner can determine whose interests count, and how each of us is to go about satisfying them. But that is totalitarianism, and its record is not encouraging. Bertrand Russell once pointed out that much of what passes for socialism is usually disguised contempt for 'the lower orders' or disguised love of power.

A civil society inculcates values of self discipline, self reliance, community involvement and support for others - all independently of government. Altruism exists alongside self interest. It is an obvious fact of human nature that most people empathise with others, and often go out of their way to help people in need. Sympathy for those in distress can be observed in even quite young children. Altruism is most powerful at close range. The closest range is the family: most people care more about other family members than about anyone else. This is why the family is such an important social institution and why it is mistaken to believe that the collective decision making and resource sharing that occurs in families is a sound basis for organising the wider society.

It is ironic that the critics who claim supporters of market economics ignore altruism include the very people who rushed to condemn the 1980s in America as 'a decade of greed'. For it is these critics who have left altruism out of the picture: it has been estimated that total charitable giving in America rose 56 percent in real terms in the course of that decade - faster than the increase in national wealth. With the worldwide move to freer markets, the 1980s were a decade in which large numbers of people became better off through participating in a market economy. Some people behaved greedily, as they do in every decade. But it takes a vivid imagination to label a whole decade one of 'greed'. In fact, far from inhibiting altruism, an increase in prosperity facilitates it. Wealth increases your options for helping others.

It is pointless to deny that greed exists. It's as well to admit that we are all capable of greed and sometimes are greedy. Yet the antidotes to greed are more powerful in a free and open society than in a managed society. Most of the misnamed 'entrepreneurs' of the 1980s were eventually exposed and punished, sometimes by the law but more often and sooner by the markets. Unpunished greed, in contrast, is possible only where politicians or bureaucrats become involved and disrupt those processes. Even today, nothing beats the rapaciousness of communist cadres in China or Vietnam, or well-connected gangster-businessmen in Russia or Italy.

Of course, no one should ever claim that markets work perfectly, and nor do governments. Winston Churchill once said that democracy is a bad system of government except compared to all the others. The same might be said of the market system. All human institutions are imperfect, because we are inherently finite, limited creatures - despite our undoubted ingenuity as a species. We are limited in knowledge and capacity, and any social mechanism we devise will have features that most of us would rather it didn't. It is not a question of which arrangement solves all the world's problems, but which works best among the feasible alternatives. Nor is it a question of arguing for some system of unbridled laissez faire: there is a positive role for government to create the legal framework within which markets can function, ensure the provision of genuine public goods and provide a welfare safety net. But governments that intrude unduly on the economic freedoms on which a market system depends choke its wealth-creating capacity.

The urge to deny this fact - to believe that we can somehow transcend the trade-offs and compromises of the institutions of civil society - constitutes the age-old allure of utopianism. When people like Professor Hazledine afford themselves such illusions and politicians take notice of them, it is the poor who suffer. We know that a market economy is by far the best mechanism for raising people up from poverty. We know it because we have seen it happen in the richer countries to our own ancestors: most of us need only go back one or two generations to find forbears who were born poor. Market reforms along the lines implemented in New Zealand are making that transition from poverty to wealth a reality in many countries today. As Novak has written:

> Business has a special role to play in bringing hope - and not only hope, but actual economic progress - to the billion or so truly indigent

> people on this planet. Business is, bar none, the best real hope of the poor.

Those who are genuinely on the side of the poor must be on the side of business and the market system and reject the spurious criticisms of greed, selfishness and immorality levelled against them.