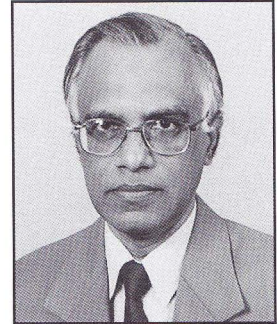


PROFESSOR

DEPARTMENT OF ECONOMICS  
DHAKA UNIVERSITY



I am delighted to learn that East West University will hold its second Convocation on May 21, 2003.

The purpose of university education extends far beyond merely acquiring certain skills and knowledge and, thereby, preparing for a career. A university should be able to offer the kind of educational experiences that enable students to seek truth, to think critically, to explore and investigate, and to remain intellectually curious throughout their lives. A university has a further obligation to prepare its students to meet the challenges of informed citizenship and to become thoughtful, responsible leaders in society. I am sure that East West University is fully committed to fulfill its obligation to its students and to society at large.

East West University is lucky to have a dedicated faculty of high scholarly standing. A unique feature of the University is to be able to draw on the expertise and experience of many outstanding academicians of the country through their association with the Academic Council. I have had the privilege of chairing the Academic Council during the early years of the University.

My warmest felicitation to the graduating students for their achievements and also to their proud parents.

Dr. Wahiduddin Mahmud

## Moral Philosophy of Global Capitalism

DR. WAHIDUDDIN MAHMUD  
PROFESSOR

DEPARTMENT OF ECONOMICS  
DHAKA UNIVERSITY

It is a great honour for me to speak on this august occasion, although I doubt if an economist is an ideal choice to do so. Oscar Wilde defined a cynic as someone who knows the price of everything and the value of nothing; and many people think that he was describing economists. Of course, there are other candidates fitting that description, such as the allied forces in Iraq who seem to know the price of oil but not the value of archaeology. My sincere hope is that the graduating students attending today's convocation, who have paid for their education, will be able to cherish the value of it in their future life.

Oscar Wilde was actually pointing to the moral basis of economics, or the lack of it. The same is true of Carlyle's description of economics as a dismal science. Economists feel wrongly accused, however, for they are usually not the cause of dismal happenings and bad news, but simply the messengers. The strongest link between economics and the real world has always been politics, which is why economics used to be called "political economy", for it is the politicians who put economics into practice. Economists also cannot help if people in their economic dealings act selfishly. As Adam Smith, in one of his famous statements, warned that businessmen seldom meet without plotting against the consumer.

Adam Smith was also a great believer of the virtues of the so-called "invisible hand" of the market, which is supposed to work through the self-interested behaviour of businessmen. He made it clear: "it is not from the benevolence of the butcher...or the baker that we expect our dinner, but from their regard to their own interest." This was the origin of how rational behaviour in economics, defined in terms of maximising self-interest, was implicitly given a moral validity. Amartya Sen has lamented the singular focus of economics on the "profit motive". Fortunately, he says, the real world is richer in human qualities than described in economics textbooks.

It remains true, however, that if businessmen in their economic decision-making were to be guided by philanthropy rather than profit motive, markets could hardly function in any coherent manner. But this does not preclude the importance of their behaving in a socially responsible way - at least in terms of abiding by the rules set for the proper functioning of the market. At the heart of capitalism is the act of investment, which involves one party lending money to another in the hope of a fair return. The system cannot function without trust - trust that the money so lent will not be stolen or diverted to illegal purposes. The incredible accounting frauds involving the US giant companies like Enron or WorldCom, resulted in the loss of billions of dollars worth of investment by ordinary shareholders, revealed the ethical bankruptcy of a large part of corporate America. In Bangladesh, we have seen how the financial institutions have been wrecked by some unscrupulous share

Convocation 2003

traders or by the wilful defaulters of bank loans who took advantage of the laxity in regulation.

The moral issue regarding capitalism that has been the subject of greatest controversy is the economic inequality that it creates. The issue came to the fore ever since David Ricardo (1772-1823) concluded, rather dispassionately, about the inevitable impoverishment of the poor and the progressive concentration of wealth. For his detached view, Ricardo was taken to task, among others, by Ruskin, who called him a cold-blooded stockbroker. The charge may have been unfair, but even the admirers of Ricardo never suggested that he was a man of passion. Karl Marx, in contrast, was a man of passion, whose mission was to identify fault, place blame and urge change. Although the gloomy predictions of Ricardo or Malthus did not quite materialise, the growth of capitalism has been nevertheless accompanied by increasing inequality and wealth concentration. On this, modern economics has remained as dispassionate as Ricardo. In order to garner the status of a scientific discipline, economic methods ruled out the comparability of different persons' wellbeing, thus refraining from making any value judgement regarding economic inequality.

To understand the moral implications of inequality under capitalism, consider this simple parable: There are two societies. In one, everyone makes a living at some occupation, say, fishing, and the amount people can earn over a year is fairly closely determined by their skill and effort. Incomes will not be equal in this society - some people are better at fishing than others, some are willing to work harder than others - but the range of incomes will not be that wide. And there will be a sense that those who catch a lot of fish have earned their success. In the other society, the main source of income is gold prospecting. A few find rich deposits and become rich, while many find themselves working hard for very little reward. The result will be a very unequal distribution of income. Some of this will still reflect effort and skill, but chance and luck play a more important role. In this society, even among the skilled and industrious prospectors, many will not get rich, while a few will become immensely so.

The vast majority of people in today's industrialised countries, no matter whether they are social democrats or conservatives, will instinctively agree that an economy resembling the second imaginary society is a worse place than one that resembles the first. Yet there is also no question that their own economies have increasingly become more like the harsh unequal society of prospectors than the benign society of fishermen. For example, here is a rough picture of what has happened in the US economy: The standard of living of the poorest 10 percent of families is significantly lower today than it was a generation ago. Families in the middle are, at best, slightly better off. Only the wealthiest 20 per cent have fared well, while the income of top 1 percent families have risen dramatically.<sup>1</sup>

The above is hardly an encouraging blueprint of pro-poor growth that the developing countries would like to copy. This, of course, brings us to the ongoing debates on globalisation. Many proponents of globalisation see it as an entirely benign process through which capitalism and democracy as practised in the industrialised West will ultimately become the universal norm. An early announcement to this effect came from Francis Fukuyama, the author of *End of History*.<sup>2</sup> In this view, globalisation will inevitably lead to converging world incomes as poor countries open up their economies, adopt market-oriented reforms and see their incomes rise. The evidence of the last two decades or so shows otherwise. Notwithstanding a few success stories, such as those of the East Asian 'tiger' economies, the rich-poor divide among nations have widened, not narrowed. More than ever before, the prevailing global economic scene is poverty amidst plenty. The global community faces the moral challenge, and has the wherewithal to address this



problem. While no good alternative to global capitalist system may be in sight, at least efforts need to be made to cushion people from the worst of that system's brutalities. Already the search is on for a "third way", in between the state-controlled and the market economy. It looks like the *end of history* is not around the corner yet.

At the heart of capitalism's inhumanity lies the fact that the market is an amoral and often cruelly capricious master. To "humanise" the system, any responsible government has to take actions in areas where the market does a poor job - such as providing social security for the poor, investing in basic health or protecting the environment. In the case of market failures at the global level, this "humanising" role cannot be done by individual states, but only by the nations of the world working together. This again is a moral challenge. Agreements on controlling greenhouse gases are resisted by huge, interlocking industrial, economic and political establishments all beholden to fossil fuels. Global assistance is needed for providing essential healthcare in poor countries, as the patent rights of multinationals raise the costs of such healthcare. The annual resource costs of meeting all the basic needs of the poor worldwide are estimated to be only a fraction of what goes into defence spending. In other words, poverty exists because war and conflict continue. That is a huge "collateral damage". And the argument that the spending on arms helps keep the US and the global economy from falling into recession is not only morally wrong but also represents a form of vulgar Keynesianism.

I would not go here into the many issues regarding the fairness of the international economic system. It is reasonable to guess that to a Martian observer of our planet's economy, the most striking puzzle would be why a worker in Bangladesh makes a tiny fraction of the wage of a worker in the industrialised West doing a similar manual job. A possible answer to this query is to tell the Martian that he is being naïve and that he should go back to where he came from. But alternative answers could express concerns not only about lack of cross-border free flows of unskilled labour (while those of capital and high-skilled manpower are encouraged), but also about the trade barriers that are erected against products that use low-wage labour in the poorest countries.

One such trade barrier relates to the so-called 'labour standards' regarding exports from poor countries. It is well known that powerful interest groups in developed countries would like to exploit this issue as a pretext for trade sanctions against poor countries. But there is also a sort of self-righteousness: one may feel unclean in buying the sneakers and shirts made by, say, Bangladeshi garment workers who are paid low wages and work under poor conditions. Certainly, one would like to see those working conditions improved. What is ignored, however, is that the wages of those workers may be shockingly low by Western standards, but nonetheless represent an improvement on their previous, and less visible rural poverty. The advocates of labour standards must face the moral dilemma - whether such trade sanctions will benefit, and not hurt, the very people whose welfare is at stake.

Let me give another example of the complex moral issues raised by economic globalisation. Lawrence Summers, while he was the Chief Economist at the World Bank in the early 1990s, wrote a memorandum to some colleagues making a "logical" case for the dumping of developed countries' toxic waste in poor countries. He argued that the costs of health-impairing pollution can be measured by the earnings of workers lost due to increased morbidity and mortality; and since the wage rates are much lower in poor countries, the economic costs of more pollution in the poor countries would be much less than the economic benefits of lessened pollution in developed countries. Also, the concern over a polluting agent that causes cancer will be much higher in the developed countries where people enjoy much higher longevity. Through the payment of enough

<sup>1</sup>See Paul Krugman  
*The Accidental Theorist*  
W.W. Norton and Company,  
1998, p.54.

<sup>2</sup>Francis Fukuyama  
*"The End of History"*  
National Interest, Summer  
1989.

<sup>3</sup>*The Economist*  
February 8, 1992, p.66.

# A D D R E S S

## C O N V O C A T I O N   S P E A K E R

compensation, such an arrangement can thus be made mutually beneficial. While Summers' economic logic is exemplary, he made the mistake of putting into words uncomfortable implications that most economists would prefer not to draw or at least not to draw in a memo that might be leaked to *The Economist*.<sup>3</sup> I cite this example, because it clearly brings out how an apparently profitable economic arrangement can have a highly controversial ethical content.

I started with Adam Smith who first provided the theoretical framework for capitalism based on the 'invisible hand' of the market and the self-interested behaviour of individuals. So, let me also conclude by citing the following quotation from his writing:

"Man ... ought to regard himself, not as something separated and detached, but as a citizen of the world, a member of the vast commonwealth of nature ... and to the interest of this great community, he ought at all times be willing that his own little interest should be sacrificed."

That is a remarkable statement made by the founder of the theory of capitalism. Notice that he talked not only of individuals' social responsibility, but also about the preservation of nature and the welfare of the global community. It is time to go back to this neglected part of Adam Smith's ideas.

