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JOURNAL OF THE ASSOCIATION OF CHRISTIAN ECONOMISTS

No. 30, January 2002

From the Editor:

This issue of the ACE Journal contains two further papers that were originally presented at the ACE Conference in July 2001. Tony Garrood invites us to reassess the tools that Christian economists might glean from a reading of Marxist economics. Catherine Waddams Price presents an overview of the ethics of public utility regulation from the point of view of the various stakeholders involved.

This year's ACE conference will take place at Sidney Sussex College, Cambridge on Friday July 5th and Saturday July 6th 2002. If you would like to present a paper, then please contact the organiser Michael Pollitt (michael.pollitt@econ.cam.ac.uk).

The latest issue of *Faith and Economics* (the journal of our colleagues in ACE North America) contains articles entitled "The common good for economists" by Andrew M. Yuengert and "Can the rich west help the third world?" by Jennifer Roback Morse, as well as six book reviews. ACE North America are also planning a conference in January 2003 in Washington DC to celebrate their first twenty years. The title of the conference is *"Economists, Development Practitioners, and the Attack on Poverty: Toward Christian Collaboration"* and further details can be obtained from the organizers, Judy Dean (jdean@usitc.gov) and Julie Schaffner (jschaf01@tufts.edu).

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FROM MARXIST ECONOMICS TO CHRISTIAN ECONOMICS

Tony Garrood[1]

1. Introduction

The paper is in three interconnected parts. In the first part I propose that economists work with theoretical and empirical tools designed to investigate, analyse and explain optimising, or economic, behaviour. The measure of such tools is economic; how useful they are in doing their job. I'm saying that it is not general philosophical criteria that should assess what economists do, but economics. So I attempt a little economics of economics. I then argue that, as well as making sense of what economists are about, it also helps Christian economists to make sense of what we do as Christians and economists. I suggest that in some circumstances Christians might adopt or create specific analytical tools precisely because they are Christians. The second and third parts of the paper are illustrations of this, first of all explaining how we might derive a useful tool of economic analysis from the midst of Marxist theory and then how this tool might be put to use by Christian economists.

We live in an era of deflation rather than the era of inflation in which I began thinking about these matters. My claims about Marxist and Christian economics are of course, as befits the age of New Labour, circumspect and modest; hopefully they are a useful way of looking at some questions in economics. They do not pretend to be a delivery of truth from Highgate Cemetery (*vice* Marx) or from Amsterdam (*vice* Dooyeweerd). I am not recommending people adopt Marxist economics, although it would obviously be nonsense for me to propose as a useful tool something I thought was of no use whatsoever. So this paper is really is one attempt at putting certain economic tools to Christian use. In trying to make this explicit I want to encourage us all to use the tools we have at our disposal for the service of the kingdom of God.

I make two propositions in this paper and follow them up with a proposal. The title is about the proposal, so let us first examine the propositions.

2. First Proposition: Economics is a useful tool

In the first article of a series commissioned by the Quarterly Journal of Economics to assess the accomplishments of economics over the past century under the rubric of "what we know that Marshall did not", William Baumol (Baumol, 2000) argues that progress in economics is not apparent so much (if at all) at the theoretical level, but

[1] I am grateful to David Hawdon and Mike Hodson for reading and commenting on this paper before I read it at the ACE 2001 conference in Cambridge and for the comments of the participants at that meeting, especially Shirley Dex for the idea of the toolbox.

at the technical level. What economists can do now that Marshall couldn't is rigorously collect data, build theoretically informed models to describe and explain those data, test one against another and predict consequences *ceteris paribus*. So for all sorts of reasons (warfare, planning, taxation) national income statistics have increased dramatically in scope and content since 1945. Econometrics, the modelling of that data, has grown apace therewith. So where Marshall could only speculate in a general and abstract way about the consequences a change in one sector of the economy will have on other sectors and its overall effect in the long term, Leontief input-output tables can specify the effect in an arbitrarily precise number. Understanding what the interrelationships within economies entail is thereby substantially enhanced. (Baumol, pp. 23-30).

I want to liken this progress to improvement and innovation in tool/machines/production processes: in general the ways of making things. Whereas years ago mining needed picks and shovels, now vast power tools are used; once the number of telephone lines available was strictly limited, today millions of calls can be passed down one fibre-optic cable. Now the interest of this to economists is not technical; the question is not can it be done, but is it useful to do it. New tools replace old ones not because they represent better technology, but because they are more useful. Economists are interested in technical change not as engineers, but precisely as those who investigate why people find doing something one way more useful or better than doing it another. I suggest that economics is like (is itself part of) the subject matter it discusses; economists evaluate economic theories, models, and data according to their usefulness (to them).

In this vein, consider the debate over positivism in economics fifty years ago. Hausman maintains that the rise in popularity of Friedman's positive economics coincided with analyses of business behaviour that proposed that firms did not (always) behave rationally (meaning in accordance with neo-classical behavioural postulates, that is as profit maximisers). Friedman's reply was that economics worked, so what if the assumptions that got it working were questionable. (Hausman, 1992, footnote p164) The point about those assumptions was not their truth, but their usefulness in generating models or theories that proved to be good ways of investigating the workings of economies. The attitude was and still is: if it works, don't fix it. We can best make progress by improving what we have got, not by worrying whether we should have started out from somewhere else. This is just how tool users act; new ways of doing things are put in place not because of their abstract superiority, but because they do the job better.[2] What economists are aiming at is getting better, more useful tools into their toolbox and increasing their own aptitude at applying them to the tasks at hand.

3. Second Proposition: Christian economics is making Christian use of economists tools

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[2] In discussion Shirley Dex called what I am trying to describe the "economist's toolbox".

The fundamentals of economic theory are deeply secular. This is obvious in Marx, who was fervently anti-Christian. Following on from its founder, one distinguishing feature of scientific socialism, as opposed to other strands of socialist thinking, has been its strong antipathy to Christians, churches and their beliefs. But this is no less true, I suggest, of the postulates underlying neo-classical economics, however they are described and developed. At the most basic level, the vision of people as utility maximisers is from a biblical perspective at the very best an impoverished vision of human nature, if not downright wrong. Worse, I think, is the central idea of (at least some if not all) enthusiasts for the market that the public good is best secured through the relatively unrestrained pursuit of private greed. Neither is the classically Keynesian under-consumptionist analysis of capitalist slumps, with its prescription of demand management to maintain the necessary level of consumption at all costs, immediately compatible with biblical injunctions to the simple life. The other strand in the programme of positive economics is that of being value free, of proclaiming the irrelevance of ethical questions for economic analysis. This also sits uneasily with the understanding of divine moral law encompassing the totality of human existence by which God will judge our actions as forcibly brought out by Christ in the parable of the rich man and his barn.

One type of Christian engagement with economics is at the level of these fundamental theories and assumptions. This is valuable and important. It is the sort of thing I like doing. But it is not, I suggest, the sort of thing that Christian economists find very important *per se*. For working economists, the interest of such investigations is related to their relevance to economics as a set of useful intellectual tools.

Now an interesting feature of ACE's meetings and its journal is that they demonstrate how people who have thought hard about economics and Christianity are able to come up with a substantial quantity of interesting economics which incorporates Christian themes and concerns. The secular foundations of economic theory do not inhibit Christian use of the tools of economics.

So there is here something of a paradox. Economic theory is barren ground for sowing Christian seed; but economics yields a good harvest for Christian economists. This makes sense if economics as a discipline is understood as a toolbox full of theoretical and empirical tools. The use tools are put depends upon the person with the toolbox. Although specific tools are often highly specialised, most often the procedures and processes embodied in them can be transferred to novel and innovative contexts where they take on functions somewhat different from their original purpose.

Its important again to recognise that this is an economic matter. Putting something to use is not an engineering action but an economic action; efficient techniques are those that solve problems of scarcity well. The use of one tool instead of another depends on what we want to do with it. This is where proposed revisions of economic theory in Christian terms come in. Economists tools are designed to do certain things in a certain way; although they are somewhat independent of the

assumptions embedded in economic theory, they are not wholly so. Certain attributes are measured, certain types of behaviour are studied. Now whilst Christian economists can use the tools of their profession for their own purposes, it may be that new tools, or new types of tools, need to be developed so that the sorts of concerns Christians bring to the study of economics can be properly met.

Now tool-making is a specialised job but tool-using is a much more generalised skill. It is easier, and therefore very often likely to be more efficient/productive to ones purposes, to use what is available to perform a task then try to make something new oneself. But this is not always so. Occasionally, but not very often, it makes sense to try to do something by changing a fundamental tenet used in tool construction heretofore. Very occasionally it makes sense to start from scratch.

Let us apply this to Christians who practice economics. Most often our reflection on economic matters will be just like that of economists without Christian belief, and none the worse economically or Christianly for that. Sometimes ethical issues will arise out of or raise concerns about the economic analysis we undertake or the results we reach; these issues may be specific to Christians or may be problems plain to many that have no particular religious commitment or formalised philosophy of life.

Occasionally Christian economists will think that the tools they are using or the results they are achieving are just not compatible with their religious beliefs. One way of dealing with this might be to examine again the economic theory providing the analytical tools we are using. Perhaps by changing some of the behavioural constraints informing our models so they are less secular and embody some ethical/religious dimension, investigations better attuned to the subject matter being studied or the sorts of effects we are hoping our studies might have may be achieved. But this is quite hard to do in a methodical way. The utility of neo-classical theory resides in its restrictive assumptions. Loosening these is certainly not impossible as theorists are doing this all the time. However this means that what could otherwise be taken for granted no longer necessarily holds.

Finally an attempt to rebuild economic theory from top down can be made; the problem with this approach is that it immediately cuts itself off from the tools economists use. The link the economist has with the real world, the toolbox with its procedures and data, explanations and discoveries, which some would say is a little tenuous at the best of times, dissolves completely. Of course the re-thinker of economic theory can think up new tools to embody their revised theory; its not that it cannot be done, but it is very difficult. Wholesale changes in technology do occur: just so revolutions in economic theory and the practice of economics such as marginalism, Keynesianism, and perhaps game theory. But their success was premised upon the utility that they have in producing tools economists could use in their work.

4. Proposal: Marxist notions of abstract labour, and absolute and relative surplus value can provide Christian economists with relevant theoretical and empirical categories to analyse how people work together in contemporary economies

I wanted to write the methodological part of the paper most, to help us to think together about what it means to be Christian economists and to suggest that, whilst the production of Christian economics is not the be all and end all of practising economics as a Christian, it might have a place in so doing.

I now have a problem. I do not work as an economist but as a simple accountant. My cost curves are all straight lines. If what I have said about economics is true, then it is precisely those who use economic tools all day long, whose skill or profession is economics, who will be best placed to work through the kinds of interactions between economics and Christianity I have suggested might be effective at different times and different places. So I have to press on regardless!

My PhD on Marx's value theory (Garrood, 1982) was uniformly negative. It dealt with what was wrong with Marx. Now it is much easier to knock something down than to build it up, to be critical rather than to be constructive. But I think I am now in a position to be a little more positive. But what I have will be at the design stage rather than the tool-using (producing) stage of the production process.

A way of incorporating Marx into economic analysis is to argue that he provides insights into capitalism that are relatively independent of his overall theory. In other words we must take him as an economist who had a particular insight into one or more aspects of modern/market economies. So Janos Kornai cites Marx as one of the main intellectual sources for his analysis of the disequilibrium characteristics of socialist economies, the economics of shortage, in that most chastening of books 'The Socialist System' (Kornai 1992). Similarly the idea of alienation found in Marx's early and more philosophical writings appeals to many Christian critics of the dehumanisation of work inherent in mass production processes. Again the notion of the fetishism of commodities, where human-made objects, take over the qualities belonging to their creators, seems to me to be tailor-made to make sense of the all consuming passion of postmodern social forms to turn everything into a commodity. It appeals to the notion that something has value in its exchangeability for money, insofar as and only because it can be bought and sold in a market with a price attached to it.

I want to try something more problematic – that is to take the theoretical core of Marxist economics and make Christian use of it. First, I will explain what I take this core to be. Marx begins 'Capital' by describing a market economy as an idealised world with many producers and no market imperfections. Marx, it is true, is sanguine about the merits of this type of economy. He argues that it is subject to the deep irrationality of commodity fetishism, where things take on the appearance of subjects, bestowing value on the people who possess them, who thereby mistake themselves for objects or things, forgetting that they made these things that now dominate them. He also denies Say's law

(no guarantee of market clearing), claiming that glut and shortage, waste and want, are chronic conditions caused by the anarchy of an unplanned and uncoordinated market. Nevertheless, in the first part of 'Capital' (Marx 1977, Part One) commodities exchange at their values, and in this sense there are no imperfections in the market system he describes. There are no monopolists and no one has the power to exchange one commodity for another with a higher value without paying the difference in money.

Having laid the groundwork of the world of commodities, Marx identifies an object that indeed appears to create value in exchange. This object is money capital, money that makes a profit. (Marx 1977, Part Two). Marx describes how the market system depends on money, how an integrated system of exchange that links together many disparate single commodity making producers, functions through the ultimate commodity. This is a thing whose use value is its exchangeability, something that has no intrinsic worth in meeting human needs but is of value only because it can be exchanged for any other commodity. Now it is precisely this commodity that dominates the market because it takes on a property that no other commodity can have. If commodities are exchanged at their values, how can the possessor of money capital make a profit, exchange money of value x for a commodity that can be sold for 2x? This cannot be done in the world of exchange, of the market. But labour power, that which working people exchange for wages, is a commodity that fits the bill. David Harvey explains:

> 'Labour power as a commodity has a two-fold character: it has a use value and an exchange value. The exchange value is set, in accordance with the rules of commodity exchange, by the socially necessary labour time required to reproduce that labour power at a certain standard of living and with a certain capacity to engage in the work process. The labourer gives up the use value of the labour power in return for its exchange value.
>
> 'Once capitalists acquire labour power they can put it to work in ways that are beneficial to themselves. Since capitalists purchase a certain length of time during which they maintain the rights to the use of labour power, they can organise the production process (its intensity, technology etc) to ensure that workers produce greater value during the time span than they receive. The use value of labour power to the capitalist is not simply that it can be put to work to produce commodities, but that it has the special capacity to produce greater value than it itself has - in short it can produce *surplus value*.
>
> 'Marx's analysis is founded on the idea that 'the value of labour power, and the value which that labour power creates in the labour process, are two entirely different magnitudes' (*Capital*, vol 1, p. 193). The excess of the value that labourers embody in commodities relative to the value they require for their own reproduction measures the exploitation of labour in production. Notice, however, that the rule of equivalence in exchange is in no way offended even though surplus value is produced. There is, therefore, no exploitation in the sphere of exchange.

> 'This solution is as simple as it is elegant. It strikes home, as Engels put it, 'like a thunderbolt out of a clear sky' (*Capital*, vol 2, p. 14).' (Harvey 1982, p. 22-23).

Marx takes up the story:

> 'The process of the consumption of labour-power is at the same time the production process of commodities and of surplus value. The consumption of labour-power, like that of every other commodity, is completed outside of the market or the sphere of circulation. Let us therefore, in company with the owner of money and the owner of labour-power, leave this noisy sphere where everything takes place on the surface and in full view of everyone, and follow them into the hidden abode of production ... Here we shall see, not only how capital produces, but how capital itself is produced, The secret of profit-making must at last be laid bare.' (Marx, 1977, p. 279).

The sphere of production is not a matter of the equal exchange of commodities. Instead it is the arena where these commodities are produced, from where they receive their value. This value is the amount of labour expended in their production, the number of hours it takes to make them. Because labour-power is itself a commodity, it is valued by the number of hours taken to reproduce it, the number of hours people have to work to produce goods of a value equivalent to those they consume to keep themselves alive (in a particular social and cultural setting, thus Harvey above). This is 'necessary' labour. But people work for more hours than they need to satisfy their own needs. These extra hours are 'surplus' labour. This surplus labour is embodied in the products they produce, and becomes the property of the capitalist who controls the labour process. In order to realise this surplus, capitalists return to the market to sell the goods workers have made for them in the production process. In this way the market system at the start of Capital volume 1 is incorporated into the circuit of the self expansion of capital in the rest of volume 1, (production), and volume 2 (circulation) and volume 3 (distribution). Just so, the market system is explained as being part of, the appearance of, the capitalist system. Marx claims that he can explain the existence of profit in a market system; this explanation depends on his being not only able to go into the realm of production from the realm of the market, but to come out again, to show how a generalised system of commodity exchange is a means whereby the surplus labour extracted by capitalists from workers as surplus value is realised and distributed amongst them.

The difficulties Marxist economists have, following on from Marx himself, is precisely here, in their reconstruction of the market system as part of the circuit of capital so that it is the same market system that demanded the existence of the non-market process of production in the first place. This is not, of course, a surprise. Something that is so constructed in the first place that profit is treated as an alien intruder is unlikely to emerge unchanged when rebuilt from via a process in which the production of profit takes centre stage. All the well known difficulties in Marxist

economics, the transformation problem, the problem of joint production, Okishio's refutation of the law of the tendency of the rate of profit to fall derive from the incompatibility of these two spheres. The issues have not changed since I discussed the disputes in Britain in the 1970's within the Conference of Socialist Economists between fundamentalists and neo-Ricardians over 20 years ago; (Steedman 1977 and Yaffe 1975 in the bibliography) exactly the same set of problems reappears in Shaikh and Tonak's criticism of Lipietz and Foley's solution to the transformation problem (Shaikh and Tonak 1994 p 179) and in the American debate in the 1990s between proponents and opponents of the temporal single system interpretation of value theory (for a flavour of which see Laibman, 1997, and the International Working Group on Value Theory website).

Here is the heart of the problem. The substance of value, labour hours, is embodied in commodities as a price, so many labour hours = so much money. Marx's famous circuit of capital is *M-C-P-C'-M'* where *M* is money capital, *C* is commodities purchased for use in the production process by capitalists, *P* is the production process, *C'* is the commodities produced and *M'* is the money for which these commodities are exchanged; the prime symbol represents the increase in value during the production process, the excess of total hours worked over the hours necessary to keep the workers in the style to which they have become accustomed. This circuit includes in its second term *C*, two quantities, *c*, the value of constant capital (the cost of the means of production, machines and materials) and *v*, the value of labour power, the wage paid to workers. Denoting the excess of total hours worked over necessary hours as *s* (surplus value produced in the production process), we can get the value of *C'* as $c + v + s$. Everything here is denominated in money. But in the production process *P,* the value of necessary labour, is the value of the wage goods workers consume.

So now if we represent the production process as a Leontief-style input/output table (as Marxists, following the lead of Marx in Capital volume 3, Part 2, Chapter 9, who attempt to provide a set of market independent values invariably do) the value of any good will be a product of the values, in labour hours, of the goods that make up its inputs calculated by a set of simultaneous equations, using the techniques of matrix algebra. So there is another value for labour power, which is by no means the same as *v*. And just the same thing happens if constant capital, *c*, is valued in labour hours as the product of the input/output table via the notion of joint production. And if this is so, then the market system will not be reduplicated as part of the movement of capital and the argument for the independence of the production process as the source of profit collapses. Marxist economists have thought a lot about this and produced many intricate solutions to the problem, but none of them, I think, wholly satisfactory.

If there is a central incoherence at the heart of Marx's system, why then bother with the notion that gives rise to that incoherence, the labour theory of value? My argument in the first two parts of this paper was that economists are interested in economic ideas and procedures because they are useful tools. Let us imagine Marx's toolbox as consisting of lots of different tools brought together for his (and subsequent

Marxists') own purposes. I am suggesting that we take one tool out of this box and put it into our own box of (Christian) economists' tools. The tool I suggest we get from Marx is simply counting the number of hours people work and then relate changes in economic variables to changes in hours worked.

We can make a number of points about this. One criticism of Marx is that the labour hours he wants to count are disparate: there are many different types of labour, and some types (such as skilled labour) are more valuable then others (because of higher wage rates). Therefore to add them together as simple hours worked is to add together incommensurable qualities as though they were the same. Itoh (1988) makes the following, and to my mind rather valuable, points about this:

> 'Thus, if we disregard the artificial managerial segmentation of workers as for wages, etc., capitalist production has powerfully dissolved any fixed traditional skills like in craftsmanship, simplifying labouring operations in most workplaces, especially in industries susceptible to mass production, and thus technologically facilitating the interchangeability of workers across jobs and industries. However, what enables such mobility of labour-power is not merely the capitalistic achievement of deskilling by means of machinery and equipment. More fundamentally, it is grounded upon the wide range of human labour-power linked with the mental, such as the linguistic ability which is specific to human beings in distinction to other animals. As we have seen Marx's treatment of the labour process clearly implied his recognition of such human labouring ability. Extendible human labour-power, based upon a rich mental as well as physical ability, has enabled workers to perform surplus labour beyond necessary labour time, working for a purpose given by others in class societies, simultaneously offers a most basic ground for the actual mobile interchangeability of workers that is realised under capitalism....
>
> 'In treating the skilled labour problem it is generally assumed that skilled labour is more intensive labour creating more value than simple labour in the same labouring time. In view of the basic ability of human labour power, we must now understand that even the most deskilled and monotonous work is the expenditure of the commonly extendible potential power of human beings.... In this regard simple unskilled labour is also expenditure of the complex human ability to work, using different combinations of the various aspects of human mental and physical abilities in accord with different forms of concretely useful work. This makes a comparative and comprehensive assessment or measurement of the intensity of labour even in the ordinary unskilled grade of work theoretically hard, or rather impossible. This serves also as a hidden basis enabling managerially convenient introduction of artificially fine gradings and segmentations into various works which can basically be performed interchangeably without difficulty. However, we should see that beyond managerial differentiations each sort of work is

> equally expenditure of a composite human labouring ability in a specific form, and that different concretely useful labour so qualified is reducible to abstract human labour, being comparable simply according to the physical hours of labour performed.' (Itoh, 1988, pp.160 -161)

Let us look at this from two slightly different perspectives. The interconnection of work is at the heart of the idea of division of labour: in another way it is at the heart of industrial production. If tasks are segmented and specialised, then if one task is not carried out, the whole process grinds to a halt. In the accountants office, the person typing the accounts and the person preparing those accounts have different skills, which, following Itoh, are each, in their different ways, as much an expression of the human ability to work as the other. No accounts preparation, nothing to type: but equally, no typing, no accounts sent to customers. Now the time taken for each task is determined by the use skillful operatives make of machines designed for the task in hand. But these machines only function within an overall process, the output of which is best measured by its final outcome. In a production process characterised by the division of labour, there is no way of valuing the intermediate parts of the production process apart from their contribution to the final product. The contribution of each discrete concrete labour to the process is therefore measurable by the time it took to perform the task assigned to it as part of the total time the whole process took.

To consider this type of working together as an economic and not technical process, I want to bring in another idea of Marx's: the notion of the forces of production. For Marx the forces of production are constantly expanding and increasing as people expand their knowledge of the natural world and their ability to mould it to their own ends. This knowledge is embodied in technology, specifically in machines used in productive processes and in the ability of people to direct those productive processes through their work skills. This is a very important idea in historical materialism, but it can be taken as a broad empirical generalisation that the population of the British Isles in 2001 can produce more than the population of the same country in 1901, 1801, 1701, 1601, 1501, and 1401 because of improvements in that technology.[3] For Marx the development of productive forces is a function of the cumulative effect of human rationality discovering more and more about the world and how best to integrate that knowledge into organising productive activity.

One side of the growth of the forces of production is the application of practical knowledge to the productive process. When production involves modest levels of technology, people working together continually improve their ability to perform their productive tasks. When technical knowledge and machines are available then people exercise their rational powers by learning how to do what they are doing better.

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[3] It is just possible that during the hundred years between 1301 and 1401 the productive forces in the British Isles declined because of the Black Death.

Now consider the highly complex tasks central to industrial production processes. As people carry out their tasks they will get better at them, improve their use of the machinery at their disposal and find new ways of using their machines to increase output. This means that workers will be able to work less hard to produce the same amount of output. They could work shorter hours or work less intensely. Because they are paid only that proportion of the value of the products they make necessary to keep them alive, to reproduce their labour-power (at current socially given levels of consumption), any increase in output will not benefit them, it will only boost the surplus value going to the capitalist. And of course the opposite is true of capitalists, who will be keen to maintain hours worked (what Marx calls the struggle over absolute surplus value - Marx, 1977 Part Three) and working intensity (what Marx calls the struggle over relative surplus value - Marx 1977 Part Four) and reap the extra surplus value created by workers now working less of the day for themselves and more of it for the bosses. Because the development of the productive forces is in this case in the control of the workers, the tendency of such improvement in working practices will be to raise wages relative to profits, because in order to extract any of this potential increased surplus in extra production, capitalists will have to agree to share some of it with their workers.

Notice here I am describing economic behaviour; workers and capitalists are each following a rule to maximise their welfare; workers are trying to reduce their toil, capitalists are trying to increase the surplus value they can extract from that toil. Crucially for a Marxist style interpretation, this is economic behaviour that is not market constrained. It arises not because of competition in markets, but because of the development of the forces of production when labouring takes the form of simple, abstract labour provided by workers who own none of the means of production and survive by selling their labour power to those who do, that is capitalists.

My guess, or perhaps a bit stronger than a guess, is that this describes pretty accurately something quite fundamental about work in modern industrial settings - the constant concern over time taken for tasks; the measurement of performance in terms of time taken to perform tasks and the overwhelming concern of managers to get people to work quicker (more efficiently). And the desire of workers to get on top of things, to have a rest for a few moments, to work more only when extra cash is immediately forthcoming. It is, of course, difficult to measure intensity of work, although lots of businesses have lots of internal time measures that are continually updated to ensure this does not drop. But it is to capture this and relate it to other economic indicators that is important. So change in total hours worked can be measured and related to changes in output, wages and profits; employees can be interviewed about stress levels and this related to output changes and changes in numbers of hours worked in the business as a whole. My hypothesis would be that in periods of no technical change, wages will tend to rise and profits fall as capitalists share with workers some of the extra surplus the one has produced and the other expropriated.

Let us say that this is the case where there is no technical change, when the process of production is not altered by the introduction of new types of machines and/or

new ways of working. Now let us consider another way of using human rationality to increase productive capacity, namely scientific advance and the invention of new technologies. How will these be integrated into productive processes where human working together takes the form of simple, abstract labour under the control of capitalists, people who do not work but own the means of production? The answer is by increasing output per hour worked, or in less tortuously Marxist terminology output per person. This can happen in two ways; new machines can increase what can be produced per hour, or re-organisation of the workforce can increase what can be produced per hour. This is just the same measure of efficiency that capitalists used in the case where increased productivity was generated within the productive process by their workforce. It is used all the time in workplaces to compare new processes with old. Characteristic of this type of growth in productive forces is that it is under the control of capitalists, who can then (and most certainly do) initiate changes in work practices from which they gain the lion's share of the benefits. Crucially, this is because new technologies are introduced with new working practices that aim at increasing the intensity of work, the expropriation of relative surplus value. This is what is meant by 'restructuring'.

My hypothesis would be that in periods of technical change so defined, wages would tend to stagnate (the experience of Anglo-American capitalism over the last 20 years); what will happen to profits will of course depend on whether the cost of the machines is greater than the cost of the labour displaced. There is a strong argument for saying that new processes will not be introduced unless cost of new machines is less than that of labour displaced; that not only does output per labour hour go up, but cost per unit produced goes down. (This is Okishio's criticism of the tendency of the rate of profit to fall.) I am not so sure about this, for two reasons. If the introduction of new technology takes place against the background of a decreasing ability to extract extra surplus value from innovations introduced within the production process, the introduction of new working practices will appear very attractive to capitalists (thus the concerted effort to smash trade unions at the start of the 1980's). Secondly, technical innovation leads to the introduction of new and better products. Once one firm opts for higher costs with a greater market share and the hope of greater net profits by extracting quasi-monopoly rent, all of its competitors will have to follow suit or be forced out of business.[4].

So this is the tool of analysis I suggest we can take out of Marx's toolbox and put into ours. By counting hours worked there is market-independent, quantitative data that can plausibly be considered economically significant and used for comparison with all sorts of other, market (priced) data. The tool measures the rule of efficiency or welfare maximisation governing work in capitalism; capitalists aim to minimise the socially necessary labour needed to reproduce labour power and maximise the portion of the working day they expropriate as surplus value.

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[4] Laibman's (1997) discussion of these issues forms the central part of his reworking of Marxist economics. See especially chapters 6 and 7 of his book.

5. Joining Proposition and Proposal: the use Christian economists can make of counting Marxist abstract labour hours

My second claim was that Christians who are economists might use the tools of their trade *qua* economists, *qua* economists with ethical concerns and *qua* Christian economists. In the context of the conflict about working hours, over absolute and relative surplus value, between workers and employers, how might this be done by counting abstract labour hours?

As economists, notice what I am not claiming. I am not making full-blown Marxist claims about the derivation of prices from hours worked. The tool might be extended in this area, but then the problems with observing the circulation of labour hours embodied in commodities through market transformations become apparent. What is observed is price, not value. So I am not advocating the sort of exercise Shaikh and Tonak undertake in 'Measuring the Wealth of Nations' (Shaikh and Tonak, 1994) to translate price and market data into underlying value and production categories.

My aim is more modest; it is to recommend Marx's idea that changes in production, both at a micro firm level and at a macro new systems of production level, can be quantified by measuring changes in hours worked, an economically defined non-market, non-price quantity governed by the type of technical change (growth in productive forces), characteristic of labouring under capitalism (a system of working together ordered according to the welfare maximisation rule of minimising necessary labour time). At the minimum such a tool can be added to existing tools of analysis, methods of collecting quantitative data, to shed further light on areas of interest.

I researched my PhD on Marx's theory of value over twenty years ago. My choice of subject seemed like a good idea in 1975, but a bit like my record deck it now has obsolescence written all over it. No one makes long-playing vinyl record discs anymore (although 12 inch single records are still popular with club DJ's). Just so, working class movements informed by, and acting in accordance with, Marxist political economy are now in short supply. Nevertheless, like the 12 inch single, Marxist economic analysis lives on, but now confined, in the most part, to academia. This, together with the discrediting and collapse of the Soviet system of centrally planned economies, lifts, I suggest, much of the tension from a discussion about a paper like this for Christians and economists. Because Marxism is no longer an alternative, some Marxist ideas and analyses of contemporary economies might well now be options.

But there is a problem here. If Marxism is not to be granted a status that gives it some sort of special insight into the nature and telos of human activity, then its specific explanations of economic phenomena should be assessed by the same canons appropriate to economic theories in general.

Consider the unattractiveness of Marxist economics in this light. Marx was writing in the 19th century, with none of the technical apparatus of the 21st century

available to him. Going to Marx for insight into economic reality would be a bit like a London commuter hankering after the days of steam trains, or perhaps a better example would be nostalgia for non-chemical post war agriculture when modern antibiotics have banished disease from animal stocks. The point is that 'Capital' is in the same boat as Marshall's 'Principles of Economics'. What Baumol says could be applied to Marx's book just as easily (much more easily, if truth be known) as to Marshall's. It comes from an era that has been technically surpassed. Marxist economics is obsolescent. The sorts of questions Marx raised are now either seen to be muddled or capable of attack using sophisticated methods of analysis that far outstrip anything he proposed.[5]

The process of counting labour hours recommended requires the more abstract analysis of labour as simple, abstract labour, the thesis about the growth in productive forces and the struggle over absolute and relative surplus value that characterises the optimisation rule of capitalism. If the empirical analysis the tool enables to be undertaken is fruitful, if changes in economic variables do indeed correlate with changes in the quantum and intensity of and rewards for labour hours worked, these ideas derived from Marx and more broadly socialist critiques of capitalism would gain a measure of respectability in economic analysis.

For the economist my argument is that the labour theory of value, conceived as a rationale for counting hours worked and relating changes therein to changes in market phenomena is not obsolete. It is a tool that can be useful to economists in a variety of settings, it is useful addition to any toolbox that is used to tackle questions about work and distribution in capitalism.

So what about my argument from the standpoint of Christian economists? Consider the ethical and/or political issues that Christians (along with lots of other people) are likely to be interested in first. Cogent arguments for much greater equality in income and wealth distribution, such as, from a Christian socialist perspective Bob Holman's 'Toward Equality' (Holman, 1997), and from a political theory angle Barbara Goodwin's 'Justice by Lottery' (Goodwin, 1993), have gapping holes where economics is concerned. Just the same applies to arguments for a 'basic' or 'citizens' income (for some of these arguments see Walter, 1989). But if the contribution each worker makes in capitalism is a function of the hours they work, then it makes a lot of sense to that suggest the reward they receive should reflect this. Moreover, increases in inequality then remain to be explained, as occurring against a background of underlying economic equality between people. Compensating mechanisms to reduce equality of outcome can be seen as correcting distortions arising in markets as they form a moment in the circulation of capital, not as interfering with efficiently arrived at market prices. I confess that morally and politically I find this attractive. Also as a Christian it seem to me that the idea that one person's exercise of the abilities which their Creator gave them entitles them leads to a far greater share of His bountiful provision than for another's exercise of those very same powers is at the very best wrong.

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[5] For one Marxist's partial agreement with this point, see Fine (1997).

Consider another even more policy-orientated topic. The rule with which capitalists operate is to minimise necessary labour time. Employers want to employ fewer people and get them to work harder to achieve the same output. The direction of technical change means that new technology will tend to be labour-saving. This strongly suggests that activities that need to increase in labour intensity to best deliver their product to their consumers will not benefit from capitalist delivery.

Consider privatisation. In industries where there was the possibility to introduce new technology (telecoms and energy generation) and reduce the labour force, privatisation has been a success. But where labour-saving technologies are not available (pre-eminently the railways) privatisation has not succeeded. Where no labour shedding was possible things have simply got worse; the dynamic of success that worked with British Telecom and energy generation is just not present in the rail industry; new technology is not available that will enable labour saving to take place. Where labour shedding through new technology was not possible but improvement was made (for example the water industry) the product got a lot more expensive.

Now consider plans to privatise schools and hospitals, the Labour government's big idea for its second term. These sectors require more not less labour hours to improve service delivery; they are labour intensive and international comparisons suggest that more labour hours input into teaching (lower teacher pupil ratios) or medical care (lower doctor patient ratios) results in better standards of education and health. This is why these services are not provided on a national scale by private businesses in sensibly run economies; where they are, they are incredibly expensive and very labour inefficient (US hospitals, UK public schools) with a vast proportion of the population unable to purchase the commodities on sale. The capitalist dynamic of technological innovation driving down necessary labour time is just not well suited to an efficient delivery of these services. What is needed is more public provision of these services, precisely because the economic regimes controlling resource allocation in public bureaucracies will get much more for the pound than selling them off to private providers. There is a good ethical argument, which is particularly attractive to Christians who believe that all are made in the image of God, based on the equal worth of all, for saying that everyone should have fair access to education and health care, that children and the sick should not have their chances of advancement or cure determined by their wealth. Here is a tool of economic analysis that argues that these sorts of services are best provided by governments through taxation, not by capitalists driven by profit.

Finally, let us consider economics with explicitly Christian commitment and content. My spin on this is taken from the Genesis creation account that God gave Adam and Eve, and through them their descendants, a number of tasks through which they would fill the earth and subdue it to the glory of God. My way of classifying these tasks is by integrating them with Dooyeweerdian modal theory. So there is language (symbolic mode) in Genesis 2v19-20, knowing (analytic mode) in Genesis 2v15-19, with 3v5, neighbouring (social mode) in Genesis 2v20-25, governing (legal mode) in Genesis

1v28, culture (aesthetic mode) [no Genesis verse]. There may also be an ethical mode and religion (pistical mode). In addition there is labouring, which is an economic task and is found in Genesis 1v28 and 3v17-19. These tasks are historically grounded and led by the relevant mode. They are wide, dynamic instantiations of large scale human functioning in the mode concerned. They are ordered by a certain way of operationalising the calling or norm for the mode in question and they vary throughout history. So there are different languages, different approaches to gathering knowledge, different ways people form societies and judge others to be they neighbours, different types of legal systems and forms of government, different moral codes, different religions. These persist throughout space and time, and characterise historical epochs.

And there is labouring. So I analyse different economic epochs in terms of labouring, how people work together to fulfill the command of God in Genesis 1v28-30. These epochs differ according to the economic norm they operationalise. Not all economic behaviour is labouring/work; to establish what an economic norm looks like, we need to investigate the economic mode itself. Here I draw from more neo-classical ideas. I take economic functioning to be optimising welfare when faced with many possibilities – that is some sort of theory of choice. We know that such behaviour crops up in all sorts of non-economic contexts as well as in modern theories of choice in the face of scarcity that make up the first part of contemporary microeconomic textbooks. The normative question here is what counts as welfare, what is it that is being optimized? My Christian criticism of both Marxist and neo-classical economics is that they turn normative economic functioning into types of rationality (different sorts of rationalities for Marxist economics and for neo-classical theory). Whereas what counts as welfare, what should be optimised, is a profoundly ethical and religious matter, for which God holds us responsible.

So I put Marxist economics into a Christian and biblical framework; Christian because of Dooyeweerd's Christian philosophy, biblical, because I always like to go back to the Bible to make sure the philosophy does not take off with wings of its own as it can tend to do. In my analysis Marxist economics takes a Christian turn because I take it to describe the norm for welfare optimisation under which people work together in capitalism; minimising necessary abstract social labour. In saying this theory is Christian, I am not claiming it is true; there are all sorts of reasons why it may not be, ranging from the problems in Marxist economics to the faults of Dooyeweerdian metaphysics and incorrect Bible exposition. But what I am claiming is that it is useful for Christian economists; this was my test for what counts as economics at the start of the paper. If a norm can be identified that characterises large scale economic functioning, we can open the Bible and find out how that norm fits in with biblical teaching on economic matters.

So what is biblical teaching on economic matters? In this Dooyeweerdian framework, what is the rule of optimisation we should use for human welfare? My current favourite for what the scripture teaches us to optimise is generosity. Consider 2

Corinthians 9 and Blomberg's 'Neither Poverty nor Riches' (Blomberg, 1999) on this suggestion. Commenting on Christ's parables Blomberg writes,

> '...(D)iscipleship will inevitably produce a tangible impact in the area of stewardship of material possessions. Indeed, this is often the most important test-case of one's profession of discipleship. Such stewardship will include, but is not limited to, giving away one's surplus goods, self imposed restrictions on the amount one accumulates, and sharing with others, all for the sake of those less well off, particularly fellow believers....(I)t is clear that Jesus believes there are extremes of riches and poverty that are intolerable in the circle of his followers.' (p.126-7)

Blomberg applies the wealth of biblical material he amasses at the end of his book, and includes a helpful section on his own practice of giving as a college professor and recommends Sider's principle of the graduated tithe, under which he now gives away over 30% of his income, whilst continuing to live a comfortable suburban life. (p. 248). He goes on,

> 'I do not assume that others making the same amount as our family would in general be able to give as much away. But when the American Christian average of total giving per family is below 3% of per capita income, surely we can do considerably better! I am convinced that a substantial majority of American Christians, and probably most in other parts of the First World could at least tithe if they made it a priority. And I am confident that many of my suburban friends could do even better than that. One may debate the appropriateness of doing more than giving to charity, to address structural evil, but one dare not do less' (p. 249).

The debate over structural evil (not a term I like) can be enhanced by contributions from Christian economists to assess in what ways the generosity inherent in economic process and organisations can be improved, how the economy as a whole can move towards a state, or can embody a dynamic, where generosity is optimised.

How might the norm of generosity be translated into terms economists can work with? The rule I will give is looking after our own needs so we can look after the needs of others. We are to work to provide for ourselves (1 Thessalonians 4v11), so that we can provide for others (1 Timothy 6v17-18). Because economic functioning is not exhausted by labouring, the norm of generosity can be practiced by individuals and communities without changing the way we work together. But because the way we work together heavily influences the whole of economic life then Christian economists can work together, using all the tools and theories we have to hand to assess how well it optimises generosity, enables people to work to provide for themselves so that they can provide for others.

This is clearly a vast research topic, and it needs to be said straight away that the political, social and economic organisational characteristics of capitalism embody a great deal of generosity. This is not just in provision of many good things to those who cannot provide for themselves, but also in its sheer productiveness, so there are many good things for all to enjoy. The simple ability to make good quality commodities that are available for purchase in markets governed by the rule of law is itself an important way that working people are generous to others. The fact that not everyone in Britain, not to say worldwide, is able to so work and so purchase these good things alerts us to the possibility that scope for optimisation of generosity still exists.

With this *caveat* in mind, consider the mechanism whereby improvements in productive techniques are introduced in capitalism. I argued that when improvements resulted from working people finding better ways to carry out existing tasks, they will either reduce their work intensity or reduce the amount of time they work. So output will be increased, that is the benefit of the improvement in technique will be shared, only when the employer, through extra wages, shares some of the surplus generated by that improvement with them. There is little scope for generosity here; for the benefits of the discovered improvement being swiftly disseminated to other workers performing the same tasks in different firms (or indeed in the same firm), or for those benefits to be used, partly at least, for the good of people outside of the production process. A zero sum game, of various degrees of ferocity, is fought out between the workers and the capitalists with no thought for anyone else. This sense that workers were in it only for themselves was what destroyed public respect for trade unions in Britain in the 1970s.

Consider next the introduction of new technology by employers. The technology so introduced is designed to make workers worse off and employers better off; to decrease necessary labour time, reduce the numbers of people at work, and increase the proportion of the value added to the product, the labour time, that goes to the capitalists. There is no scope for generosity here; the process is designed to benefit the employer and the employer alone. This sense that change and globalisation are for the benefit of the few and not the many is why large businesses and their managers are viewed with mistrust three decades later.

If the aim is to optimise generosity then three approaches suggest themselves. One is to leave the system much as it is but distribute its benefits more widely. Unsurprisingly, I favour just the sort of policies that were popular in left-wing circles before 1997. A minimum wage at about £5.50 per hour, increased taxation on the wealthy and high earners, reintroducing capital transfer tax and lifting the ceiling on National Insurance contributions are strong candidates here, as are the linking of benefits and pensions to rises in wages, and the public funding of the care of the elderly. These policies would have minimal effect on overall economic performance and increase immensely the generosity of workers and capitalists to those who are neither.

The second is to distribute the wealth produced by private businesses so that the public setting in which wealth production takes place is recognised and rewarded. This is

the idea behind the citizens or basic income, the notion that everyone, by virtue of their citizenship of a state would receive a non-taxable weekly income. James Meade was a long standing advocate of this approach (Meade, 1995), and the best place to look for information on this is the Citizens Income Trust, website in bibliography. Meade calls this free market economy with partnership replacing limited companies as the main business type and a basic income, "Agathotopian" – a good (though not a perfect, utopian) place to live. I would be content to describe this as a polity more generous than the one in which we live today.

The third is to alter some fundamental component of the labouring process in capitalism. One candidate popular among some ACE members is the abolition of interest, popular because the Bible forbids the taking of interest on loans in transactions between neighbours. With no interest, no capital markets; with no capital markets, no capitalists. But why abolish interest? One reason, I believe, is because to give interest free loans is a mark of generosity, and where such loans are required from the rich to the poor in time of need a mark of a generous economic system. The accumulation of wealth is for the benefit of others, not for the benefit of the accumulator as is the case in capitalism. Another candidate that arises more from my sort of Marxist analysis is the elimination of the private ownership of intellectual property rights. The problem with the response of innovator (both worker and capitalist) is that they legally hoard their discovery, rather than being generous with it. Rather than a patent granting exclusive rights, why not change patenting law so that innovations would be put into the public domain and licence fees would be shared between the patentor and the patent authority. Everyone would have the right, by paying a fee, to use the process or product in their own businesses. Non-patented processes would be free for all to use. This would require some solution to the free rider problem, but notice comparative advantage gained by research is not eliminated, it just does not become a legal monopoly. Generosity is involved, the investigation of God's good creation yields benefits that are available to all, not just the few.

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THE ETHICS OF REGULATION

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1. Introduction

Regulation in its broadest sense applies to the whole realm of laws and rules which a society makes to govern the behaviour of its members and institutions. However in this paper the focus is narrowed to those regulations which affect the conduct of economic affairs (e.g. health and safety and environmental regulations) and in particular to consider the ethics of economic regulation itself, particularly of formerly nationalised utility industries.

Ethics, the moral principles particular to any person or group, can be considered at several different levels. The broadest approach is likely to be at the national level, but with increasing focus on the moral basis of international systems and organisations we shall return to some international aspects of the ethics of regulation later on. Within each nation state there may be an established ethic of regulation, but the issue also arises at the level of the regulator, the company and the individual. The ethics of individuals may be pertinent both when they act as consumers (for example choosing an 'ethical supplier') and as employees (for example in dealing with customers). We will consider the ethics of regulation at these various levels.

To provide some focus, we concentrate on the question of 'for whom' regulation is designed and implemented. This is particularly pertinent to economists who are used to a model in which regulation of any kind is introduced and assessed in terms of its effect on efficiency, under the assumption that there are other, more appropriate, tools to deal with distributional questions. Such a model might be seen as being 'non-ethical' in the sense of being silent on distributional issues. This raises the old canard about the extent to which such economic analysis is positive or normative. But it is useful to note the assumptions which lay behind the original development of regulation of UK utilities. This was seen as a temporary measure in industries where competition could be expected to develop, and was needed primarily to protect consumers as a whole from the exercise of monopoly power. But its analysis was largely in terms of restoring economic efficiency to markets, rather than in distributional terms. The rest of the paper considers in turn the question of ethics and the different players in the regulatory process: government, regulators themselves, companies, and individuals as consumers and employees. The final section considers the question of public interest and raises some concluding issues.

2. Government

While a 'pure' efficiency model seems to have inspired the original regulatory models in the UK (see, for example, Littlechild, 1983) it is not clear that this is still the

most appropriate template. Long before the Labour government was elected in 1997, there were concerns among the general public about the distribution of benefits from the high powered incentive schemes which were introduced at privatisation (concerns demonstrated graphically by Cedric the pig's presence at the 1995 British Gas Annual General Meeting).

While the response to the original efficiency model might not have amounted to a backlash, a reorientation of the UK regulatory system followed the election of the Labour Government in 1997, with a new Utilities Act, 2000, changing both the governance of the energy regulator and its duties. In particular, its primary duty was changed from enabling companies to finance their regulated businesses and encouraging competition, to protection of consumers "wherever appropriate by promoting effective competition" (I-9-(1)). Such changes were originally expected to be introduced simultaneously in communications and water regulation; these have been postponed, with similar adjustments included in the Water Bill and expected in a Communications Bill in 2002.

Secondary duties have also been altered. The original Gas privatisation Act in 1986 included a regulatory duty to take account of the needs of consumers of pensionable age and those who were disabled. This was later extended to those living in rural areas and the chronically sick. The Utilities Act adds a significant new group – individuals with low income – recognising an explicitly distributional role for the regulator. Since these duties are undefined and open to a wide range of interpretations, a typical case in of British legislation, it is not clear what difference the changes in primary and secondary duties will make in practice. The effect of the legislation itself is further obscured by the fact that so much depends on the interpretation by the individual regulator. The personal element is still very important, despite the reconstitution of the duties in a Gas and Electricity Markets Authority rather than a Director General, and that the post holders are likely to reflect the sympathies of the appointing government. For example, when Callum McCarthy was appointed Director General of Gas and Electricity Supply in 1999, he was agreeable to the changes which the Government was about to make. Indeed he had already adjusted the style of regulation to be more concerned with low income groups than his more assertively market orientated predecessors.

The move towards greater concern for consumers reflects changes in orientation in competition policy as well. For example, in assessing the effect of changes, the Office of Fair Trading focuses on consumers and consumer benefits much more than on profits. While a traditional economic model might place equal weight on gains to producers in the form of profits and to consumers from increased consumer surplus, recent guidelines and judgements weight the consumer gains much more heavily. Indeed there often seems to be a weight close to zero on efficiencies which are not passed on to consumers. These approaches are not necessarily short-term. The interests of future consumers are important, and the importance of incentives for companies is clearly recognised. Nevertheless the policy represents a clear shift in emphasis. In terms of the question of 'Regulation for whom?' we can see a much clearer ethic of regulation

from the current government than from its predecessor. From this central perspective, both regulation and competition policy are much more directly focused on benefiting consumers.

3. Regulators

The regulator could be seen as a passive agent of government, so that the question of ethics is not relevant at this level. However the discretion which regulators have in implementing regulation and the behaviour of different regulators indicate that they are more in the role of supervisors, with their own agendas, so that their ethical approach is significant. The discretion of regulators is, if anything, underlined by the new requirements for them to take account of environmental or social guidelines issued by the government. A procedure for consultation has been laid down, but the regulator is free to make his own decision, and some have informally made it clear that they will not consider themselves bound by such guidance. The power of the regulator is also underlined by the different styles and effects of different individuals in post. In gas the second regulator, Clare Spottiswoode, believed that her predecessor, James McKinnon had acted *ultra vires* in imposing a small tax on gas prices to counteract the incentives (inherent in the form of regulation) for the company to expand output at the expense of environmental concerns. However the electricity regulator, Stephen Littlechild, had imposed a similar charge in electricity, and their successor, Callum McCarthy, has continued the principle for both industries through the Social Action Programme. In water, Ian Byatt, the first Director General, had public disagreements both with the government and with other departments, particularly the Environment Agency, about the interaction of economic regulation, which focused on lower prices, and calls from environmental interests for higher prices. These examples indicate that regulators do bring their own ethics and views on 'for whom' regulation should operate to the task, and that this is reflected in their decisions. However as mentioned above, governments tend to appoint regulators who are sympathetic to their views, so that some alignment can be expected.

Regulators' views on 'for whom' regulation is implemented can be divided into three main categories, though any individual regulator may reflect a mixture of these. The first is the 'pure economic model' described above, in which regulation is seen as a means to correct inefficiencies in the system which arise from monopoly power within a particular industry. Such a view is likely to be combined with strong pressure to increase competition wherever possible within the industry. Any concerns about short term distribution of benefits between the company and consumers are likely to be weakened by recognition of the importance of incentives to innovate as markets are opened. This probably typifies the approach of the first regulators in telecoms and electricity, Bryan Carsberg and Stephen Littlechild. A second approach is aggressively consumer oriented, with deep concerns about the company's potential to make excessive profits. However this model explicitly rejects a regulatory concern with issues beyond the monopoly exploitation of the regulated company, particularly environmental and social concerns. The second telecoms and gas regulators, Don Cruickshank and Clare

Spottiswoode, and the first water regulator, Ian Byatt, are typical of this approach. A third, more holistic approach, in which regulation is seen as an instrument of much wider government policy, is typified by the current energy regulator. Perhaps surprisingly, this last view is in many ways closer to the first in terms of regulation being seen for the wider good. But in the first case this is restricted to efficiency aspects, while in the third it is a much broader view. The second approach, focusing strongly on consumers, is likely to be an increasingly important part of the third scenario, particularly in the current climate of government opinion.

Strong focus on consumers would be typified by overt disagreement and frequent referrals to the Monopolies and Mergers Commission, and later to the Competition Commission, typical of the history of British Gas and Transco. But this also reflects the style of the company, particularly in this example. British Gas and Transco have notoriously failed to agree with their regulator in the past, but since the last review and referral there is a new style both at the regulator and the company. Nevertheless Transco is considering returning to the Competition Commission over the latest price review in Autumn 2001.

3.1 Universal Service Obligations and Cross-subsidies

Regulators commonly impose some form of Universal Service Obligation (USO) on incumbent companies. This is typically a requirement to serve all consumers at the prevailing tariff, but might also consist of a less onerous task of extending a network to make the service physically available, without specifying the terms at which it should be sold (see for example Chisari et al., 2001). Such a Service Obligation is likely to be particularly relevant in developing countries.

In the UK, the most overt Universal Service Obligation is imposed on the telecoms incumbent, British Telecom. It is required to offer geographically uniform prices to all consumers on its national network. This is onerous because cable companies are free to select the areas which they serve and concentrate their services in the lower cost urban areas. The USO effectively forces the company on whom it is imposed to subsidise high cost consumers in rural areas from revenues generated by lower cost urban consumers. In fact uniform pricing between urban and rural areas is practised in all industries, which all have the similar ‘economy of density’ feature that rural consumers are generally more expensive to serve. However the USOs do not have to be so explicitly imposed where there is no threat of competition to the network itself. While it might be more profitable for network companies to raise charges for rural areas and lower them in towns, their market share is not threatened by entrants seeking to ‘cream skim’ the more profitable consumers. These geographical cross-subsidies within networks are rarely discussed by regulators or firms, but it is likely that both are conscious that such moves would receive a strong adverse reaction from government. Regulation in this case preserves the status quo advantage of rural consumers who are the beneficiaries of this cross-subsidy.

In energy a similar issue to the USO issue in telecoms arises in payment method. Consumers generally use one of three payment methods: monthly direct debit, quarterly payments in arrears and prepayment, representing increasing costs for the supply company. Difficulties arise because the full additional costs of prepayment are not reflected in the tariffs, and this payment means is used primarily by lower income households. Regulators in both industries have been reluctant to allow prices to rise in the prepayment market, but the consequent low margins have led to few attractive offers from new entrants. The gas incumbent and the regulator had a series of debates about the costs of supplying the prepayment market and the appropriate balance of tariffs (summarised in Otero and Waddams Price, 2001a). In electricity, the tariffs of companies who operate both as incumbents in their own area and as entrants in others offer much better deals for direct debit relative to prepayment customers outside their own area, where they are free from regulation (Otero and Waddams Price, 2001b).

Even if the regulator is clear that he is regulating 'for prepayment consumers' he has a difficult choice between their short term interests (keeping prices low) and long term benefits from competition (allowing prices to rise and attract new entrants). And as in all cases where subsidy schemes are used to target a particular group, there is a problem that prepayment consumers do not exactly coincide with the lowest income households, so that lower prepayment prices will help some who are not poor, and omit some who are.

All the energy regulators, the previous water regulator and the telecoms regulator have imposed some restriction on price rebalancing by companies, either formally or informally. The water regulator has published 'Dear MD' letters which indicate that price rebalancing would not be welcomed, though some discounts for direct debit payment have recently been allowed by the regulator. Prepayment devices in water were made illegal after a judicial review brought against the regulator.

The difficulties in deciding between the long term and short term interests of consumers is exacerbated by consumers' own preferences. The energy regulator has made it clear that he would like to reduce the numbers of prepayment meters; however at present prepayment meter numbers are rising, partly because new entrants to the industry are reluctant to take on credit consumers without strong evidence of credit worthiness. While consumer and poverty lobby groups are concerned about the possibility of so called 'self disconnection', consumers themselves are enthusiastic to retain the financial control which prepayment gives them. Self disconnection proves to be a problem for only about a quarter of these consumers (Universities of Warwick and East Anglia, 2001). This raises real questions not only about 'who regulation is for' but even if the 'target group' is established, who should determine what is in their best interests. Do the consumers themselves know best, or should their wishes for the flexibility of prepayment be over-ruled to protect them from dangers of fuel interruption?

4. Suppliers

The concept of ethical companies is of course much broader than the regulatory context. There is an established literature both on Corporate Social Responsibility, CSR (Carroll, 1998), and business ethics (Parker, 1998), concepts used somewhat interchangeably to describe the role of organisations in society which extend beyond economic and legal obligations. CSR suggests that organisations should seek socially beneficial as well as financial results, and business ethics attempts to apply more general ethical questions to business behaviour (Post et al., 1999). Both concepts raise questions of how appropriate and feasible it is for organisations to take on social and environmental objectives alongside their commercial operations.

Within this broader picture, regulated companies have their own particular context as recipients of regulatory guidance. However this process is not necessarily as passive recipient of regulatory guidance. The process of regulation itself may be one of negotiation rather than of directives (e.g. Coen and Willman, 1998). Companies are subject not only to the regulatory framework, but also to a much more diffuse process of pressure from lobby groups, and utility industries are particularly liable to such influence. This is further complicated by the role of the official consumer bodies, which are being strengthened and made independent of the regulatory office under the new legislation. For example the energy consumer body, energywatch, describes its mission to "be an independent consumer champion, dynamic in developing safe, confident and assertive consumers and committed to improving the services provided to all gas and electricity consumers." Its aims include "to work with companies to improve industry performance for the consumer" (energywatch, 2001). All of this adds pressure to the firms' own interpretations of how to respond to different 'stakeholders'.

Early responses to the Social Action Programme indicated that firms approached the demands of the regulator to address the needs of low income consumers in a variety of ways. Diane Sharratt reported interviews with over 40 managers in 14 energy supply companies and constructed a matrix with four typical reactions, several of which might be represented within one organisation. She typified these as 'embracing' social initiatives, business as usual, management deliberation and conflicts with commerce (Universities of Warwick and East Anglia, 2001). The first and last of these might be interpreted in economic terms as a marketing and a cost based approach respectively. The market is essentially one for homogeneous products which suppliers have difficulty differentiating or branding. 'Embracing' social initiatives can be seen as a way of achieving a particular brand image, and seems to have been used as such by some companies, for example TXU with its Staywarm scheme. In contrast, those who see conflict with commercial objectives are recognising the difficulty of recovering the costs of implementing the scheme, particularly in a competitive market.

These interviews were conducted with mainstream suppliers who were privately owned by shareholders; in this context it is difficult to distinguish behaviour or comments which may be using support for a Social Action programme as a marketing or public relations exercise from one based on 'purely' altruistic motives. However there

is one supply company which is based entirely on offering socially equitable gas in the competitive market. The Ethical Billing Company (EBICo) was launched in 1999 and offers gas at the same price to all consumers, regardless of payment method, through Equigas. Given that other suppliers charge less for direct debit and quarterly payment, Equigas offers a much better deal for prepayment than for other payment methods. Only one company offers lower prices for prepayment, and then only to those who use very large quantities of gas. However, many companies offer lower prices for Direct Debit payers, particularly those with large consumption. Equigas must therefore depend on attracting a sufficient number of consumers who are not prepayment users to compensate for the lower revenue from its prepayment market. This raises the question of the ethical individual as consumer who chooses to take supply from such a company even though it is not the best personal deal, in the interests of what s/he sees as a more ethical charging policy.

5. Consumers

Non-prepayment subscribers to Equigas are probably making a conscious choice to support lower income consumers through a cross-subsidy via undifferentiated prices. Because costs of prepayment supply are higher this is not an efficient tariff, since it does not reflect the cost differences, but it is marketed as an ethical tariff. This could be seen as equivalent to a charitable donation to a particular payment group, though acting through the market in this way may send a more public message. Equigas claims some credit for influencing policy through the Liberal Democrat undertaking in its 2001 election manifesto. Their website cites the manifesto:

> 'End discrimination in gas, water and electricity charges encouraging the regulator to offer a wider tariff choice which helps the poorest people in society. At the moment, for instance, households which use pre-payment meters end up paying higher rates than other users. We will also seek to have standing charges replaced with a banded system of charging to protect poor households and encourage high users to conserve energy.'

The marketplace provides a forum for making statements about the ethics of charging as well as a means of extending practical support to potentially vulnerable households.

Another example within energy is 'green energy' where consumers pay more on the understanding that the supplying firm either generates at least as much electricity from renewable sources as its green sales, or contributes the extra payment for green sales to a fund to develop renewable energy. The Consumers Association offers the following advice.

> 'Whether you think it's worth paying more for green energy is a personal decision. But if you do, it's worth choosing one that makes the most of your money. With those tariffs that use some of your money only to support

> green charities, you could simply choose to make your own donation.' (Whichonline, 2000)

The advice clearly keeps in mind the consumer's own interests (as one would expect from a consumer lobbying organisation) as well as the altruistic motives.

Similar issues arise with respect to international labour conditions and environmental issues. Traidcraft has provided a means of supporting fair wages and better than average working conditions since 1979, enabling workers' participation in ownership and decision making in developing countries. The Fair Trade movement has developed and made its presence felt on mainline supermarket shelves, where consumers often pay more for their products to achieve other objectives, in this case more equitable international trade relations. In each of these cases consumers are exercising their purchasing power, not just to select the product which most suits their needs, but to signal their concern about other, distributional or environmental issues, i.e. behaving as ethical consumers.

6. Employees

One strand of studies of ethics at the individual level has focused on the ethical code which an individual uses in the workplace, particularly where this may be at odds with that of the employing organisation. The workplace of privatised companies had changed dramatically during the reforms; ownership (and consequently the responsibility and objectives of managers), regulatory and market structure have all altered. The focus had changed from engineering driven solutions to increased awareness of consumer wants. The main conflict may be experienced in serving consumers perceived as vulnerable, who may be subject to disconnection for non payment, or not able to represent their views in a dispute with the company or other parties adequately. Such consumers were protected by informal arrangements from concerned employees under the old régime, but employees themselves recognised this as a rather random arrangement.

> 'Public service ethos? The quicker it goes, the better for the consumer. It meant "we do it when we feel good about it, but we don't do it all the time".' (Goodwin, 2000 p. 23).

Goodwin records the responses of employees within a privatised water company, where the changes have been particularly dramatic. In this and other industries subject to recent reform she identifies the continuing presence of a public sector ethos, in which profit maximisation is not seen as the prime objective of the organisation. At times there is evidence of employees helping consumers, even when this is not strictly within the letter of the rules under which they are told to operate. Employees see it as their (personal rather than corporate) responsibility to identify the best interests of the consumers and act accordingly.

> 'When I began, I used to take it as a personal affront if people were without water. It's the public sector ethos – we've spent 9 years trying to get rid of it!' (ibid p. 22)

This is rather different from the consumer focused rhetoric of recent government and regulatory pronouncements, which are based on empowering consumers to take such decisions and actions in their own interests. The objective of improving consumer welfare is the same, but the means are very different.

It is clear from a variety of sources (e.g. Mulholland, 1998) that the changes in the industries have brought some conflict for employees who joined the public sector and now find themselves in a very different environment. Both intuition and empirical evidence suggest that some employees who 'self selected' to enter the public sector in the past may find the privatised environment less congenial both personally and as regards their ethical attitudes.

> 'I worked for the [former] Water Board 1972-5. People joined it because it had a public service feeling – plodders, undynamic people. When I came back the atmosphere was very different. People with 'serving the community' values would not fit in.' (ibid p. 22)

This suggests that 'survivors' are likely to experience some conflict between their current work environment and their intrinsic ethical values. However it may be difficult to separate the personal discomfort which the changes have engendered in some employees, because of the change in their own situation, from an altruistically motivated ethic on behalf of others. Such tensions are inevitable in any situation of rapid change of objectives and environment in a workplace. Since regulated industries are regarded as 'special' because of the nature of their product and the monopoly inherent in their distribution, ethical conflicts are likely to be particularly marked after such extreme changes.

7. Ethics and the public interest

The question of a public ethos raises broader questions of 'public interest'. This notion pervaded legislation and policy development for the second half of the twentieth century. The privatisation process itself removed the objective to act in the public interest from companies on whom it had been imposed at nationalisation; in the immediate post privatisation period it seemed to disappear. But it is reappearing in a somewhat different form in the duties of regulators in the current wave of regulation reform (Conrad and Waddams Price, 2001). Public interest was also the primary test for merger and competition policy until recent reforms in this legislation too.

Public interest has always been a vague and ill-defined concept, but captures the concept of behaviour which might not be in the 'private interest' of the immediate players. That it has so long been associated with the utility industries suggests a general

agreement that these industries are in some way special, a feeling which persists in recent regulatory reform, the response of companies to the social agenda, some consumer purchasing decisions, and in employees within the industries themselves. Traditional economic models have ignored such concepts, concentrating firmly on private rather than public interest. This paper has concentrated on developments in the UK, but the implications for developing countries, to whom the traditional models of privatisation are enthusiastically exported by the UK, the US and international organisations, are much more acute. In particular the issues of extending networks, Universal Service Obligations, affordability and attracting investment are much more urgent and may be more difficult to reconcile. Is it possible to broaden the models to include the ethical issues at various levels? How can such a process build on other experience and literature which takes a more holistic view of economic processes?

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BOOK REVIEW: *Capitalism, Morality and Markets* by Brian Griffiths, Robert A. Sirico, Norman Barry and Frank Field, Institute of Economic Affairs Readings 54, London, 2001; 88pp (pbk £7.50)

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The Institute of Economic Affairs has established a tradition of encouraging debate on the moral and ethical implications of market economies over recent years. This collection in its *Readings* series is the latest contribution to this theme. The volume contains four essays by each of the four authors, which began life as lectures in a series sponsored by the Institute and entitled the Templeton Forum on Markets and Morality. Each essay covers very different ground, but are firmly located in a philosophical sense within the Institute's mission to "improve understanding of the fundamental institutions of a free society with particular reference to the role of markets in solving economic and social problems".

Brian Griffiths begins by considering the subject of the business corporation as a moral community. This is an essay that spans the subjects of economics and business ethics. His central premise is that, while it is in principle possible for a business to function without a moral standard, it is in practice extremely unlikely so to do. Griffiths takes a very positive view of "morality in action" in modern businesses, arguing that moral lapses such as dishonesty and lack of integrity are likely to prove the exception rather than the rule. Consequently business corporations must fulfil an important role as moral compasses for society at large. The adoption of moral standards which promote trust and integrity result not only in lower transactions costs but also are likely to be an important source of competitive advantage. He then reviews the question of where those moral standards should come from, exploring the ideas of such a diverse groups of authors as Francis Fukuyama, Friedrich von Hayek, C.S. Lewis and Hans Kung. He concludes that it is doubtful whether self-interest is sufficiently robust as a motive for providing moral standard to influence behaviour, and also rejects the efficacy of any notion of a global humanist ethic. Rather the most effective source of moral standard is one based on seeing a business career as a God-given vocation to service of God and fellow human beings. The establishment of moral standards of behaviour within the corporation is therefore a function of good leadership.

The second essay is by Robert Sirico and is entitled "The culture of virtue: the culture of the market". Father Sirico is a Catholic priest who was the co-founder and is currently president of the Acton Institute. His starting point is that the culture of the marketplace and the culture of moral virtue are often posed as competing with each other. Sirico argues that this is a short-sighted view, and argues that the market economy has the potential to be a "powerful tool in the construction of a civilisation centred on the immortal destiny and the unique potential of every single person". This is powerful claim, and so what are the grounds on which it is made? Firstly market economies, in contrast to collectivised ones, have the capacity to promote peace. This is because the market is an institution in which individuals are free to contract with each to mutual advantage, and therefore promote prosperity. Secondly the culture of the market helps

humankind to fulfil their God-given command to "fill the world and subdue it", through individual creativity and social participation. For many this will all seem a rather optimistic assessment of the potential of the marketplace. For example, contrast the view of the early 20th century Polish economist, Michal Kalecki, who took the view that wars were always and everywhere about economics. Furthermore Sirico's claim that it is "empirically inaccurate that the poorer nations of the world are getting poorer while the rich are getting richer" is staggeringly simplistic. Empirical work on international growth convergence amongst the world's market economies is far from conclusive. Even more important is what is happening to the distribution of incomes within individual countries. However to be fair Sirico recognises that markets are not without their problems, and most will find favour with the view that the problems inherent in markets are not sufficient to justify abandonment in favour of collectivism. He concludes very firmly that the culture of the market can reinforce the culture of virtue. What I find missing from this conclusion is at least some recognition that human sinfulness has enormous potential to "gum up the works". Surprisingly the word "sin" doesn't crop at all.

Whereas Griffiths, in the first essay, rejects the self-sufficiency of self-interest as a moral principle, Norman Barry in the third essay falls firmly into line behind the sole primacy of the profit motive. Those familiar with Barry's writings, in particular on business ethics, will be familiar with this view. The central premise is that the imposition of ethical compliance, by state regulation or ethical code internal to the business organisation, is unnecessary and even harmful. The commitment to shareholder value is paramount and for public companies that commitment entails important fiduciary moral and legal relationships. These are the only ethical rules (for example the responsibility to uphold the common law of contract) that are necessary for the long-term success and prosperity of business corporations. Barry argues that while the idea that fiduciary duties should be extended beyond share ownership is morally appealing (to the corporate "social responsibility" lobby) it makes no economic sense. What is missing from this critique is the recognition, which is implicit in the first two essays, that the promotion of social responsibility (such as that pursued by the Co-operative Bank and the Body Shop) might actually constitute good business. Also absent from the argument is any acknowledgement, to which Christians might adhere, that God might prosper those who honour him in their sense of social responsibility. Cadbury and Rowntree did not build model housing and schools for their chocolate factory workers for profit (although well-housed, well-educated workers might have been more productive) but out of a sense of moral responsibility towards their Creator.

The final contribution is from Frank Field MP. This is the shortest and most tightly focused of the essays, concerned as it is with markets and the provision of a minimum standard of pension income in retirement. Field begins by throwing his weight behind the transformation of British Labour Party thinking from being antagonistic towards the market economy to being "market-friendly". However his central thesis developed here and elsewhere in his recent writings is that markets alone cannot guarantee an end to poverty amongst the elderly. In the 19th century the pre-eminence of Christian belief acted as a self-imposed constraint on the excesses of the free market.

Christianity has collapsed as a moral foundation in modern British society and so has had to be replaced by various forms of state regulation and codification of ethical principle, such as those operated by the Financial Services Authority. This is a fascinating if depressing assertion and one that really needs developing much more fully beyond the pages of a brief essay on the regulation of financial provision in old age. Specifically Field is critical of the Labour Government's recently introduced voluntary "stakeholder pensions" for those on modest but not very low incomes. It is his advocacy of a much wider system of "universal protected pension" that brought his career as a government minister to such a rapid end.

This latest collection from the IEA comprises a varied and well-written collection, and Christian economists will find much in here to interest them. They will not be in agreement with everything, but they will find much food for thought.