

A Manifesto for a Humane Individualism

Sir Samuel Brittan

While much recent discussion has treated free markets as a harsh and regrettable economic necessity, I would like to stress the relationship between competitive free markets and wider ideals of human freedom. I am not, for example, prepared to condone governments that practise brutal floggings on the pretext that tariffs have been slashed or the GDP increased. If on the basis of some dubious statistics Singapore is declared to have a higher standard of living than Great Britain it would not have affected my arguments by one iota:

1) It is remarkable that so many political figures and their intellectual supporters who most favour freedom in the economic sphere are most opposed to it in personal and social conduct. On the other hand those many who proclaim the right of people, especially young people, to follow their own inclinations so long as they do not harm others, are bitterly opposed to the economic system which gives the greatest opportunity for such freedom. My object has been neither to dwell on the paradox, nor to explain it, but to try to persuade radical and iconoclastic people to take a more favourable view of market capitalism, and to persuade business and establishment figures to realise that their efforts only have value on the basis of free individual choice.

2) The underpinning of this point of view is not in economics as such but in a doctrine, now not very popular, known as individualism. This has three aspects, in ascending order of importance:

a) Methodological Individualism. The study of human affairs is best advanced if as far as possible we move beyond abstract collective wholes, such as nations or social classes, to the forces acting on the individuals who make them up. Indeed for some purposes we need to carry this reductionism further and think in terms of the genes of which individual human beings are the carriers.

b) Metaphysical Individualism. It is individual men and women - or at least human entities at particular times - who feel pain, experience pleasure and all the other states to which people are prone.

c) Ethical individualism. Public and private actions are to be judged by their effects on the well being of human beings and not in terms of collectivist goals such as national prestige of class solidarity or the degree of equality, except insofar as these collective concepts can be translated into the welfare and feelings of individual human beings.

The above propositions explain that much criticised statement of Lady Thatcher "*There is no such thing as society, only individuals and their families*", which is much the best thing she ever said.

3) Individualism does not imply selfishness. Individuals may choose to advance the good of their neighbours, or pursue religion or the advancement of learning. It is the object of the law and public policy

generally to ensure that their efforts to pursue self-chosen purposes benefit rather than harm other people, as was first pointed out by the great English philosopher Thomas Hobbes - who was no libertarian himself but saw the correct way to analyse such matters.

The altruistic businessman should work harder than average to amass wealth which he can devote to good causes in his private life. The English 18th century religious leader, John Wesley once said: "*Work all you can; save all you can; and give all you can.*" This is not exactly right but is still a good brief answer to the worries of the moralists about the profit motive.

Adam Smith not only made the famous remark about not depending on the benevolence of the baker for our daily bread. He also said that little good came of businessmen who professed to trade in the public interest. These remarks are best regarded as a *second level maxim in a utilitarian system of morality*. Businessmen do not have the *knowledge* to advance the public interest directly and will serve their fellows best if they concentrate on maximising their shareholders' equity rather than on trying to promote exports, combat "global warming", promote an economic growth or solve political problems.

You will notice that I have not so far mentioned the *stakeholder* idea under which a company is supposed to be responsible not only to shareholders or even to workers, but to suppliers, customers and the public at large. This has no operational meaning and is simply a charter for management to do what it likes without accountability to the owners of the firm. Managers will try to get away with this when they can, but there is no reason for the rest of us to feel good about it. The great advantage of a traditional company - whose shareholders may include workers - is that there is a specific goal for which its managers are held accountable. The so-called socially responsible firm is a loose cannon liable to damage itself and others.

4) The individualist is therefore not much impressed by arguments between those who want a United States of Europe and those who would die in the last ditch to save the nation state. The relevant question is a functional one. Is a particular activity best conducted at a local, national European or for that matter more global basis? I would favour a European executive with minimal state functions, confined to security, external trade policy and, in my personal view, the issue of a common currency. On the other hand many existing activities should be returned from Brussels to the national level or preferably not carried out at all.

5) The great heresy of our age is to accept the dictatorship of a temporary majority - or even a temporary plurality - and identify this with democracy. Democracy is only worth having if it is constitutional and liberal. This means that there must be limits on the power of the majority to oppress a minority or to abolish civil liberties.

It also means that elected governments and parliaments must be bound by longer lasting rules which they cannot abolish at the drop of a hat.

6) The idea of competitiveness is an absurd general objective for economic policy. Nations are not corporations. An individual nation can be uncompetitive in the limited sense that its real exchange rate is too high and that even with sound domestic policies it cannot pay its way in the world without unnecessarily high unemployment. It follows that we *cannot all be uncompetitive; and becoming more competitive is an absurd goal for any large grouping of nations*. When politicians and businessmen say *competitiveness* they really mean *performance*. This is not a harmless error. For too much talk of competitiveness leads governments and firms to think of trade as a form of warfare rather than as a co-operative game in which all can win.

7) The profit motive will only promote the general welfare under a framework of rules and public policies. One important example is the need for governments and central banks to promote an expansion of purchasing power or spending - what macroeconomists call nominal demand - sufficient to support non-inflationary growth but not so much as to finance and a resumption of inflation. This is of course easier said than done. But it would help if we thought more in terms of the proximate aim and did not get lost in technicalities about the definition of monetary aggregates or the techniques of monetary policy. Much of today's discussion reminds me of an argument among car drivers about which route to take without first deciding whether we are trying to get, for instance, to Zurich or Geneva.

8) The question of exchange rates is just one aspect of economic management. Does the possession of a national currency which can appreciate or depreciate have any value or is it just a nuisance which increases the costs and uncertainties of trading?

The need is to distinguish between two kinds of exchange rate movement. The first is a long term downward trend of a currency such as sterling or (in the past) the French franc against a hard currency such as the German mark. This reflects mainly faster inflation and does not promote growth or jobs. The right to a high rate of inflation is not worth fighting to preserve.

The other kind of exchange rate change is a temporary one in both directions to accommodate country or region specific shocks. Such temporary exchange rate movements provide some cushion and also allows the affected country to have a monetary policy which is temporarily different from its neighbours. *But in this case periods of above average monetary ease must be compensated for by other periods of above average monetary tightness.*

In this second case the advantages of such temporary deviations must be traded off against the advantages of having one predominant currency. This is not a cost benefit analysis on which economists have even begun to embark.

9) The growing prosperity of emerging countries is a benefit to the older economies of the West. The South-

East Asian "tigers" and the former Communist countries do not export to paper their walls with dollar notes but to buy imports needed by their own citizens. Their growth enlarges the market for Western business and increases the opportunities for specialisation and mutual trade.

10) There is no need for Western countries to emulate so-called Asian values. Indeed I suspect these "values" are just a rationalisation for oppressive regimes and practices. But even if some Asian countries were to become more prosperous in terms of income per head there would still be no need to emulate them if we value the non-material benefits of our own way of life. We could go our own way and still trade. Similarly there is no need to sell arms to unpleasant dictatorships or warmongering rulers. To think otherwise is the fallacy of not realising that resources have alternative uses and that the worst long term result of refusing an arms deal would be slightly less favorable terms of trade for the country concerned.

11) The main cause of European unemployment is practices which price people out of work. It is fashionable to emphasise non-wage costs such as taxes and social security contributions. But it is the total package that counts. Welfare levies would not threaten employment if workers regarded the services they finance as a true substitute for take-home pay and were prepared to accept lower wages in return. Many employers try to deny the relation between pay and jobs to make their own consciences feel better. They do not deserve any respect for doing so.

12) On the other hand market economists need to realise that market clearing wages can be too low to provide a tolerable standard of living. Even though the typical western country gains as a whole from increased trade with emerging countries, individual categories of workers will lose and income disparities (I do not use the world inequality) may well increase. It is reasonable to ask those of us who benefit from increased trade and prosperity to contribute to topping up the income of those at the bottom of the scale. What I am suggesting is not a minimum wage, which destroys jobs, but a minimum income guarantee under which the income of low paid workers is topped up by the rest of us.

This is not quite the same as a fully fledged basic income which we are not yet able to afford. It might better be called a negative income tax. The difference is that the payments would be made selectively to those falling below a specified threshold; and the withdrawal rate of benefit, as incomes from work increase, would have to be higher than the basic rate of income tax. Otherwise, either the cost is too high or the benefit is too small.

I have covered an extremely wide range of subjects. Political economy will never be like geometry; and the different propositions do not follow from each other as a series of logical deductions. On the other hand they do hang together as a coherent whole and in my biased view are more attractive than the typical package put forward from the Right, Left or even Centre of the political spectrum.

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