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Edmund Phelps: Economics and Morality

By [Jay Richards](#)

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I've often complained about the lack of economic understanding by religious thinkers who nevertheless moralize incessantly about matters economic. There is, of course, the other problem: economists with a tin ear to serious moral concerns. Edmund Phelps is not a member of either of these sets. Phelps is a professor of political economy at Columbia University and director of Columbia's Center on Capitalism and Society. He's also the 2006 Nobel laureate in economics.

In a recent issue of First Things, Phelps published a very serious essay entitled "[Economic Justice and the Spirit of Innovation](#)." It's one of those essays that cuts through the repetitive cant of a thousand other articles in its genre (h/t to Nick Schulz for alerting me to it). So I'm planning to dedicate several posts to it.

It's clear from the very beginning that Phelps is going to do something interesting. Most moral analyses of economics focus on the same few things, such as economic equality, the distribution of wealth, and financial

stability for the poor. Commentators across the political spectrum may even share the same underlying moral assumptions, but differ merely on their application. As Phelps says:

As for income distribution, although the subject raises a great deal of emotion, there is little disagreement about economics between market-oriented economists and social interventionists. The prevailing view on the left, which derives from John Rawls' philosophy of fairness, concedes that inequalities of income are tolerable, on the condition that they benefit the lowest-paid workers. On the right, market oriented economists in the tradition of Friedrich von Hayek contend that the poorest do benefit from a market system and would suffer under the stifling effects of collectivism.

The positions are not so different: By Rawls' criteria it is justifiable for Bill Gates to command \$100 billion in assets, provided that every one of those billions was gained in such a way that the poorest in society are marginally better off as a result. One hears few voices on the left remonstrating with Bill Gates about his wealth, precisely because the general perception is that everyone is better off as a result of inexpensive personal computers. The moral issue that one would expect to divide the right and left vanishes, and its space is occupied by mere tradeoffs. For example: If we agree that successful market participants should pay taxes to assist the poorest, the question is, What tax rate will optimize government revenue? That is not a moral issue but a technical one.

Of course, as Phelps goes on to say, thinking through the trade-offs is one of the most valuable tools that economics provides. And no serious moral analysis can ignore them. Still, Phelps thinks that economics, and moral reflection on the same, too often leave out the most important economic reality. What's that? I'll discuss it in my next installment.

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