(*Excerpts from*) Ethics, Economic Advice, and Economic Policy

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I wish to use this occasion to discuss the ethical dimensions of a variety of issues in development and international economics that I confronted over the past eight years. **Economists have long bought into the importance of self-interest not only in explaining behavior, but also in yielding efficient outcomes. But economists have also long been aware of the limitations of these perspectives. Not only does the self-interest /market paradigm often fail to generate efficient outcomes, but even when it does, these outcomes may not comport with notions of social justice.** Still, in the realm of economic policy, governments typically justify foreign aid and other policies aimed at poorer countries in terms of their own self-interest; how such policies increase world incomes, thereby increasing the country's own exports, or contribute to global political stability, from which all benefit. Such arguments deflect attention from the moral justification for these policies.

Ethics in the relationship between developed and less developed countries dictates that the developed countries treat the less developed countries fairly, aware of their disadvantaged economic position, and acknowledging that taking advantage of one's own economic power inevitably will hurt the poor within developing countries. We have seen several instances where, in global economic relationships, this precept has been grossly violated**: an international trade agenda set to advance the interests of the more developed countries, at least partially at the expense of the less developed**—so much so that on average the world's poorest region was actually worse off at the end of the last round of trade negotiations; and an international environmental agreement that provided that those rich countries who today are polluting more be entitled to continue polluting more into the future.

There are other dimensions to globalization which illustrate the same violation of basic ethical precepts. Consider the argument made for free capital mobility: it increases world efficiency. Never mind the devastation that it might bring to the small poor countries—and the poor within those countries—that are not able to withstand the seemingly irrational fluctuations of investor sentiments and the consequent reversals of capital flows! But globalization in these factor movements is much like globalization in trade: there we saw how the powerful tell the less developed countries to open their markets to the goods of the more industrial countries, while keeping their own markets closed. The factor which the developed countries export is capital, the factor which the developing countries have in abundance is labor. From an economic perspective, global efficiency can be attained by free mobility of labor every bit as well as it can be attained through free mobility of capital. But the developed countries are not arguing that there should be free mobility of labor; they are not offering to open up their doors to the poor of the world. The reason is obvious: they are aware of the social dislocation—and the consequent political pressure—that such migration would bring about. But they simply cannot put themselves in the shoes of the developing countries: they are unsympathetic when the developing countries raise precisely the same objections to opening up their countries to the factors and goods which are in abundance in the developed world.

There are five concepts, in particular, on which I will focus: honesty, fairness, social justice (including a concern for the poor), externalities, and responsibility. While the meaning of most of these terms should be self-evident, let me comment briefly on each. Honesty goes beyond outright lying; it comes closer to the dictum of telling the truth, the whole truth, and nothing but the truth. Misrepresentation—asserting that there is evidence for some proposition when there is none—violates the principle of honesty.[2] Fairness includes what economists call

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[2] Honesty is a precept that can be taken as a value on its own, or as *instrumental*: actions taken on the basis of distorted information may lead to adverse results. Presumably, one of the reasons for dishonesty is to induce

horizontal equity—either treating everyone the same (e.g. not discriminating on the basis of race or gender), or, to the extent that it is desirable to treat those in different circumstances differently (e.g. the aged and the handicapped may need special treatment) treating those in similar positions similarly. The hard question, of course, is what are meaningful differences, differences that could justify differences in treatment. Favoritism—including giving special treatment to special interests —is thus a violation of the ethical norm of fairness. Social justice includes helping those in need, and doing so in ways that enhance their sense of dignity and the ability to assume individual responsibility for themselves. "Externalities" entail that individuals should not impose costs on others. Littering is, in this view, "wrong," a violation of an ethical norm. Responsibility is the ethical norm that individuals should take responsibility for their own actions and for the consequences of those actions.

Ethical issues arise in every aspect of economics and economic policy making. We recognize, for instance, the ethical problems posed by *conflicts of interest;* and the multitude of positions that individuals have also makes such conflicts of interest inevitable. Today, modern ethical *norms* require *disclosure* of significant conflicts of interest, reflecting the precept of honesty.

The modern theory of agency recognizes that agents do not in general *adopt* the interests of those (the principal) who they are supposed to be serving as their own; it is the responsibility of the principal to design incentive structures which align those interests, as much as possible. But it is wrong for the agent, for instance, to steal, to accept kickbacks from clients, or to engage in a host of other corrupt practices.

Advisors face ethical issues. Government bureaucrats and elected officials face ethical issues, such as those associated with corruption. Governments face ethical issues in the design of programs; and international institutions face ethical issues. I begin this paper by subjecting the role of economic advisor to ethical analysis: what does it mean to be an *ethical* economic advisor? The question is an important one, because the international financial institutions are actively involved in providing economic advice. In doing so, do they behave ethically? I will then examine specific issues: ethics in the treatment of developing countries by developed countries, e.g. ethics in the area of trade, global environmental policies, debt forgiveness, growth strategies, crisis management, and finally, ethical issues in population policy.

The Ethics of the Economic Advisor

Most professions have clear ethical principles. In medicine, these are embedded in the Hippocratic Oath. These include "do no harm." In a sense, the ethical norms seek to mitigate the adverse consequences of the unbridled pursuit of self-interest, in particular those that arise whenever there are agency problems (where, because of lack of information, one party can take advantage of another.) Violating these ethical principles harms the entire profession (there is, in this sense, an externality). It destroys *trust.* It is, for instance, unethical for a doctor to prescribe a medicine because he receives a kickback from the manufacturer. The patient, not knowing the reason a doctor prescribes a particular medicine over another, assumes the doctor is prescribing the medicine in the best interest of the patient, not because the doctor is receiving a kickback. Thus, actions which could lead to a conflict of interest between the professional and the person for whom he or she is providing a service are unethical. Since a central part of the service being provided by most professions is information, honesty is a critical virtue.

But there are less straightforward implications as well, and it is to these to which I want to call attention. **First, *honesty* requires full disclosure of the *limits* of knowledge**. For instance, economists can claim with considerable certainty that if a government spends well beyond its revenues for an extended period of time, problems are likely to be encountered, or that hyperinflation has adverse effects on the economy. We can claim with some confidence that capital

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others to take actions which, were they to know the truth, they would not. Thus, not disclosing fully the risks of capital market liberalization—and purporting that there are gains from such liberalization when there is little evidence that there are such gains—may induce countries to liberalize when, were they provided with more accurate information, they would not; even if the country would have, in any case, liberalize its capital markets, the distorted information may lead it not to provide the safety net that it would have provided, were it fully aware of the risks.

market liberalization is associated with greater risks, particularly for small, open, developing economies. **On the other hand, *honesty* would dictate that an adviser recommending capital market liberalization reveals that empirical evidence proving that capital market liberalization leads to faster growth is absent, and that economic theories supporting capital market liberalization are disputed.** He would qualify any argument saying that capital account liberalization is helpful in inducing foreign direct investment by pointing out, however, that the developing country that has been most successful in recruiting foreign direct investment, China, has not liberalized its capital account.

Concern for social justice should make an economic advisor particularly attentive to the consequences of policies for the poor. Information does affect action, and while the economist has a moral responsibility not to impose his values, he also has a moral responsibility to ensure the information is available on the basis of which *moral* policy decisions—for instance, decisions that reflect the principles of social justice—can be made.[3] If a policy imposes risks on the economy and if those risks are likely to be borne to a significant degree by the poor, then the adviser should point that out, especially if the risks are borne disproportionately by the poor. To the extent possible, there is a moral responsibility to think creatively about what kinds of policies might enhance the opportunities for the poor, allowing them to take more responsibility for their own well being. Similarly, since there is a moral imperative to be concerned with future generations, the economist should be attentive to the consequences to the environment, and should provide information that can lead to better environmental policies.[4]

One of the main activities of the international financial institutions is giving advice. In assessing the way that international financial institutions dispense advice, I feel that all too often they fall short on all counts described above. T**hey push a particular set of policies, as loan conditionalities, rather than outline the range of policies and trade-offs and encourage the countries themselves to take responsibility for choosing among alternative policies. They fail to clarify the uncertainties associated with the policies they promote, making assertions about the policies' efficacy that cannot be supported by evidence.** Most importantly, at least in the past, not only have they failed to pay due concern to the possible adverse effects of the policies on the poor, they have not even disclosed the likely risks. They have continually pushed policies entailing "pain," seemingly almost oblivious to who within the country has to bear that pain. Many of their policies seem to disproportionately benefit financial interests, and they fail both to point this out, and to disclose what I have viewed as the *contingent* interests of their staff—evidenced by the fact that many staff members leave the IMF (or World Bank) to work for private financial institutions.[5]

Facing Moral Dilemmas as an Economic Advisor

This brings me to perhaps the hardest moral question facing the policy adviser. What should he or she do when confronted with a policy that he believes is, in some sense, "immoral"? Should he speak out, but thereby risk possibly losing influence? Is silence a form of complicity?

I faced a similar dilemma as Chief economist at the World Bank. I believed the policies pursued by the IMF in the wake of the East Asia financial crisis would lead to deeper, longer recessions and depressions than necessary. I believed that the financial interests of the foreign creditors were placed above the concerns for the poor and small businesses. The policies pushed by the IMF, I believed, would almost surely wreck havoc on their lives and livelihoods. I tried quietly within the institutional processes to change the policies, or at least promote open discussion of the policies (given my belief that the errors were so obvious that any open discussion would quickly bring about

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[3] I realize that there is a fine line that I am treading: I argued earlier that the economist should, in effect, distinguish the economist's role in defining opportunity sets from the political task of choosing among the points in the opportunity set. But the information supplied about the points in the opportunity set—e.g. their impact on the poor—can affect the choices made. Someone not sharing the *values,* not concerned for the poor, might argue not only that providing that information is irrelevant, but distorts the political process of decision making.

[4] We should thus view "green accounting" not just as a matter of providing a *good* accounting framework, but as a *moral* issue.

[5] The number one person in the IMF recently moved directly from the IMF to take the vice-chairmanship of Citibank Group.

a reversal of course). But with the great institutional rigidities (and the powerful special interests and their ideologies), I not only could not reverse policies, I could not even engender open discourse. It seemed to me that there was a basic moral issue: how could I remain silent? I felt a strong moral obligation to speak out. At the very least, to point out the risks of these policies?

In general, there is no easy answer to these moral dilemmas facing the policy advisor. Each situation is different. A critical judgment is what actions he can undertake that will most likely bring about the actions which he believes are morally right. In some cases, resignation may be the most effective answer; but even when that is contemplated, there is an important issue of timing. A well timed resignation can sometimes bring about change more effectively than any amount of argumentation.

Debt Forgiveness

Debt forgiveness has become the subject of enormous public discussion. There seems something peculiar about very poor countries transferring money to richer countries year after year. Many countries have to spend a huge fraction of their export earnings to service their debt, leaving little remaining to spend on improving the plight of the poor. The debt overhang impedes growth and poverty reduction. Without debt forgiveness, prospects for these countries are bleak.

Here, I do not want to address the economic issues, but rather the moral issues and dilemmas. There are four, in particular, which have not received sufficient attention. **The first concerns *fairness* among developing countries**. The amount of resources transferred from the rich to the poor will, in any case, be limited. The question is who will receive these funds? The funds used for debt forgiveness could have been used to aid other needy countries, in particular countries that are equally poor, but had repaid their debt. Is it fair that those who have lived up to the terms of the loan contract should be worse off than those, no better off in a fundamental sense, who do not?

The second issue revolves around the moral responsibility of the lenders. There are cases that might seem slightly more problematic. Consider the 1998 IMF loan to Russia. There, there was an elected government, though one for which there was considerable evidence of corruption. It was perfectly clear at the time that Russia's exchange rate was overvalued; the overvalued exchange rate was having an adverse effect on their economy; the IMF imposed contractionary policies (part of the conditionalities imposed for assistance) caused a deep plunge in their economy leading to enormous increases in poverty (from 2% under the previous regime, to almost 50% by 1998); and the policies of privatization and free capital outflows which the Fund also had pushed led to a few oligarchs accumulating huge amounts of wealth. Should the IMF have lent billions of dollars to the country; knowing full well that there was a high likelihood that the funds would simply enable a few oligarchs to take more money out of the country; knowing that it would saddle the country with increased indebtedness; knowing that the poor taxpayers would eventually have to pay back; knowing that in any case it was unlikely to facilitate the resumption of growth (and indeed, by sustaining the exchange rate at an overvalued level, actually had an adverse effect on growth)? And if the IMF did lend the country money, and if the money then was, in effect, used to enable oligarchs to take more of their wealth out of the country at more favorable terms, and if the economic polices failed, what is the moral obligation of the citizens of the country to repay the loan, or of the Fund to forgive the loan? What is the moral responsibility for their misguided advice, for their complicity in providing funds where there was such a high likelihood of abuse?

The third issue concerns the nature of the debt contract, and the advice given to the countries. In well functioning capital markets, the risk associated with any contract is divided among the parties, with the party most able to bear the risk bearing the risk disproportionately. But capital markets do not work as well in practice as they do in theory. It is the developing countries that bear the brunt of the risks associated with exchange rate and interest rate changes, and it is large changes in exchange rates and interest rates that have led many of the countries to their current predicament. The international financial institutions, of course, have the opportunity—I might say the obligation—to design contracts which reflect an appropriate sharing the risk burden; but they have failed to do so. And they have failed, in many cases, to advice the country of the risks associated with the borrowing policies which they recommended. For instance, prior to the Russian 1998 crisis the IMF advised Russia to borrow in dollars, seemingly because the interest

rate was lower. But the IMF, of all institutions, believes in well functioning markets and should have also pointed out that if markets were working well, then the differences in interest rates (between the dollar and ruble rates) reflected the risk of exchange rate change, and that if Russia did borrow more in dollars, the consequences in the event of a devaluation (which at the time seemed highly likely) would be very severe.

The fourth relates to the issue of conflicts of interest that I raised earlier in this essay. One of the functions of the large bail-out loans has been to provide funds with which Western banks can be repaid. There are potential conflicts of interest (at the individual[6] and organizational level[7]): much of the benefits to these loans arguably goes to the banks and other Western financial interests, with the costs being borne by workers, and others remaining within the country. *Ethical* advice and lending practice would require that this be pointed out. When there has not been adequate disclosure, what is the *moral* obligation of the borrower to repay? Of the lender to forgive?

Developed Countries' Trade Policy

At one level, it is natural for a country to pursue its own interests. But, as I asked earlier, at what point does this pursuit of a country's own interest (or, as is more frequently the case, special interests within one's country) at the expense of the poor, become a *moral* issue?

Global Externalities: The Global Environment

We teach our children early on that it is *wrong* to litter. This is an example of an *externality*, an action by one individual that affects others and for which they do not bear the costs. Government policies are designed to limit the extent of externalities, but they are imperfect: social control mechanisms—a sense of what is right and wrong, *ethical* presuppositions—are more effective. The actions of those in one country similarly have effects on others, and given the absence or weaknesses of international law, there is a need for reliance on ethical norms. For instance, it is wrong for a country to locate a garbage dump on its boundary so that the downward wind pollutes the air of its neighbor.

The realization that we all share the same planet, that its resources are limited, and that bad policies can squander those resources, leaving future generations at risk, has come about only slowly. There is now general recognition of the *dangers* of global warming, and the Rio and Kyoto conventions are testimony to this global concern. But there is a deeply troubling aspect of the framework of these conventions. It is based on cutbacks in current emission levels. It is hard to detect an underlying principle of equity: the developed countries seem to have the right to pollute more than the less developed countries (on a per capita basis) simply because they have polluted more in the past. Is there any moral justification for such a policy? There are alternative frameworks, involving for instance agreements to undertake common policies (e.g. universal taxes on carbon emissions) that would seem to have a stronger ethical basis.

The ethical stance of the United States, the largest emitter of greenhouse gases, both on a per capita basis and absolutely) is even harder to comprehend. It claims that it need not do anything because the developing countries have not bound themselves to doing anything, even though the build-up of greenhouse gases is largely due to the advanced industrial countries, and even though, were they to make a commitment not to emit at levels that exceed that of the United States on a per capita basis, it will be decades before that constraint will be binding.

Intergenerational equity, the environment, Population Policy

There are moral dimensions not only of how we treat others who are alive today, but also how we treat future generations. By using up natural resources, without leaving compensating endowments of physical capital, we leave future generations more impoverished. This violates

[6] That is, many of those responsible for making the loans have, and will have, connections with the financial institutions being bailed out.

[7] That is, finance ministries (U.S. Treasury) and central banks, with close ties to the financial community, in the advanced industrial countries—the lenders—are responsible for the lending decisions.

principles of intergenerational *equity* or *social justice*. Many developing countries today are exploiting their limited natural resources, without adequate provisions for the future. There are accounting frameworks (green accounting) that are designed to encourage better intergenerational equity. Governments should be encouraged not only to use such accounting frameworks, but to set aside funds or to invest in physical and human capital.

Perhaps the most important determinant of environmental degradation (including that related to carbon emissions) is population growth. Population growth imposes a wide variety of externalities (a point recognized long ago by Edgeworth [1888][8]). Countries with high rates of population growth have a hard time increasing incomes (per capita), and thus face a greater prospect of increasing poverty. Indeed, in the last decade of the last century, in the race between improving standards of living and population growth, the latter won: while the percentage of the population in poverty fell, the absolute number of people living in absolute poverty increased. Those with large families not only have a hard time feeding their children (and childhood malnutrition has lifelong effects), but they cannot afford to educate them, thereby condemning another generation to poverty and suffering. We now have the means of controlling population. I would argue that there is a *moral* obligation for governments to pursue such policies.

Crises

Earlier, I briefly alluded to the moral dilemmas I saw when confronting the global financial crisis. I do not want to address here the problem of parsing out "blame" for the crisis and the failed management of the crisis. I want to focus on the *ethics* of international advice and assistance. To be sure, policies within the affected countries did contribute to the crisis: corruption and inadequate financial regulation played their part. But that is not the issue. The issue is how to intervene in the crisis in ways that minimize the damage, particularly to the poor, providing at the same time the foundations for correcting the underlying problems. The IMF failed to do this.[9]

The interests of foreign creditors were put ahead of the concerns for the workers and small businesses, with devastating effects, from soaring unemployment to plummeting wages. These parties were innocent bystanders; it was not their borrowing that had led to the crisis. Food subsidies for the poor were cut, just when they were most needed. The political and social unrest—with many people dying—was predictable, and predicted. What is the moral responsibility for those who push for the policies that had such disastrous consequences? Especially when their prior advice, encouraging, even demanding rapid capital market liberalization was probably the single most important factor contributing to the occurrence of the crisis in the first place? And, even more so, when the policies put forward fail to have the predicted outcomes, the IMF and the U.S. Treasury shifted blame to the country—and in doing so contributed further to investor flight. As Jeffrey Sachs pointed out, it was like crying fire in a crowded theater. Doing so not only is bad economic policy, and an abuse of the trust and confidence placed in the institutions. It is arguably a fundamentally *immoral* act, just as crying fire in a crowded theatre—and knowing that doing so might generate a riot and needless death—would be an immoral act. These are questions that all too seldom have been raised within the international institutions or the governments which dominate their policies. But they are the questions which are increasingly being asked by ordinary citizens both in the Third World and in the more advanced industrial countries.

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[8] See Edgeworth, "Mathematical Theory of Banking", Journal of Royal Statistical Society, 1888

[9] The IMF has claimed that the quick recovery of several of the countries affected by the global crisis is proof that its medicine works. A closer look at the pattern of recoveries does not support this conclusion, as I argue elsewhere. The country that has been the most assiduous follower of the IMF prescriptions, Thailand, still has a GDP below the pre-crisis level, and almost 40% of loans are non-performing. Malaysia had a quick recovery, but never had an IMF program. Indonesia is still in a deep recession, partly attributable to the riots that were inspired by the failed IMF policies, partly attributable to the fact that those policies led to massive bankruptcies, from which the country has yet to recover, and partly due to the strategy of restructuring the financial system led to runs which undermined the entire private banking system. Korea's recovery in part was due to the fact that it did not listen to the IMF at key points: had it followed their advice in disposing of the so-called excess capital in the chip industry, it would have missed out on the global turnaround in that market that fueled the recovery. The growth in Russia and Brazil was because of the devaluations, which the IMF policies only delayed.

The governments in power, which acquiesced in those policies, bear some responsibility, but they often view themselves as having no choice—and were told that they did not in effect have any choice. The outside advisers did have a choice in the advice they prescribed. Indeed, there was controversy about the appropriateness of different policies. Thus, the issue is not whether the affected countries themselves and their governments bear some responsibility; they do. Rather, my concern here is the moral culpability of the IMF, which it has yet to recognize.

I want to briefly refer to several of the ethical dimensions of the IMF's behavior. **First, in providing its advice, the advisers did not act *honestly* in conveying the risks and uncertainties and in presenting the range of alternatives. Secondly, there is the issue of the trade-off between devaluations and interest rate increases, and moral issues concerning *responsibility.*** The IMF held that only by increasing interest rates could they forestall further declines in the exchange rate. In fact, the high interest rate policies were ineffective in forestalling the decline in the exchange rate, and may have actually contributed to it; by helping deepen the recession/depression, capital was induced to flee, rather than attracted into the country. But this mistake in economic judgment[10] should not be confused with the deeper moral issue. At the root of the crisis in several of the countries was excessive borrowing abroad. Those borrowing could have, and most economists would say, should have obtained "cover" (effectively insurance) against a change in the exchange rate. No government guarantees its exchange rate; and there is no such thing as fixed exchange rates. Exchange rates change; the only difference in regimes concerns the frequency, magnitude, and more generally the rules that govern those changes. The market was, in effect, telling borrowers that there was a risk of devaluation (in equilibrium, the difference in interest rates at home and abroad is equal to the expected rate of change of the exchange rate, plus a risk premium). The stance of the IMF, once the crisis occurred, was to bail-out those who had gambled on the exchange rate not changing (who had not bought cover), at the expense of the innocent bystanders. In a sense, those who *caused* the crisis, by borrowing excessively abroad short term, were let off the hook (at least partially), at the expense of those who were only engaged in normal business borrowing**. Put this way, the bail-out raises disturbing moral issues, beside the broader *moral hazard* issues that have been extensively discussed (the pattern of IMF inspired bail-outs reduce the incentive of those borrowing abroad to obtain cover.)**

Growth and Poverty Reduction Strategies

Today, everyone pays obeisance to the importance of reducing poverty. The IMF changed the name of its program for developing countries from ESAF to incorporate the words "poverty and growth." Trickle down economics—whereby one justifies programs that make the rich still richer but arguing that the benefits eventually trickle down to the poor—is no longer in fashion. But putting rhetoric aside, there is an active debate concerning economic policies. The position of the US Treasury and the IMF can be characterized as "trickle down plus": growth is necessary and almost sufficient for reducing poverty, and subsequently the best strategy for helping the poor is to adopt growth maximizing reforms—the same neo-liberal agenda, with its emphasis on privatization and liberalization, that prevailed over the past two decades, augmented by education and health. The modifications in the traditional formula represent important steps in the right direction. But the underlying prescription is faulty in several respects.

The fact of the matter is that the countries that have been most successful in development over the past half a century—the countries of East Asia-- have not followed

[10] There were other mistakes in economic judgment: the IMF concluded (without deep empirical work) that allowing the exchange rate to fall would harm the economy more than letting interest rates rise. In fact, in several countries, this was almost surely not the case. For instance in Thailand, those who borrowed abroad were the real estate firms (and those who had lent to them), who were already dead, in the wake of the collapse of the real estate bubble, and for whom a further fall in the exchange rate would have had little effect (though it may adversely affect the amount that foreign creditors could obtain); and exporters, who would gain as much in earnings as they would lose on their balance sheet. Perhaps the reason that they did not go into a close empirical evaluation of the effects was that that was not really their concern; they were more focused on the impact of the countries' ability to repay the loans to their creditors. But this change in mandate from the purposes for which the institution was created—to help sustain a country in the face of a threatened downturn—and this obfuscation of the true objective of the policy (if correct) is itself deeply troubling, and raises moral issues.

the Washington consensus policies. And many of the countries that have followed the Washington consensus policies have not done particularly well (though the "doctor" claims that the prescriptions were not followed sufficiently closely). *Honesty* should have dictated full disclosure: the evidence in favor of the Washington consensus policies is at best mixed; and failing to provide such honesty *raises* moral issues.[11]

But perhaps more important, *concern for the poor* should have dictated greater attention to the consequences of the policies for poor, and an awareness that the countries that have done the best job of reducing poverty have gone well beyond a reliance on trickle down economics. Some examples help illustrate what I have in mind:

- The countries that have done best in improving the plight of the poor have had an explicitly pro-poor growth strategy that goes beyond simply paying lip service to education and health.
- Unless the poor are given assets—as in land reform—they are likely to remain mired in poverty. But land reform may challenge vested interests. It is curious that while those who currently own large amounts of wealth in many of the poor countries acquired this wealth in ways that have little legitimacy (e.g. through the exercise of brute force by colonial masters), taking wealth away from these individuals is viewed as an abrogation of basic values of "property rights."
- The disparity between the ownership of resources (like land) and labor results in institutions, like sharecropping, which lead to attenuated incentives and reduced output.
- Some of the economic reforms advocated by the IMF and the US Treasury have uncertain effects on growth, but increase the country's vulnerability to shocks. (Capital market liberalization represents the most obvious example.) It is the poor who inevitably bear the brunt of the downturns, regardless of the lip-service paid to the importance of creating safety nets. Honesty would require observing that even in the most developed countries, safety nets for farmers and the self-employed are inadequate.
- But even the benefits of trade liberalization become more questionable, unless accompanied by measures that enable the creation of new enterprises and jobs; but IMF packages often have accompanied trade liberalization measures by high interest rates that would make job creation a virtual impossibility, even in a well functioning market economy. The point is a simple one: trade liberalization often leads to a loss of jobs. The free market ideology argues that this enables a flow of resources from less efficient uses to more efficient uses. Were that the case! The problem is that in many less developed countries markets do not work well (that is part and parcel of being less developed). Unemployment rates are high. Job creation is difficult. Moving labor from low productivity jobs to unemployment decreases a country's GDP and increases poverty.
- Privatization programs have often had adverse effects, particularly on the poor. The rapid privatization programs have led to privatization of monopolies, without regulatory oversight; and these monopolies, while they may or may not have proven more efficient in production, have sometimes proven more efficient in exploiting consumers.

The economics of these policies has long been debated, both within the economics profession and within civil society. My point in raising these issues is not to rehearse that debate, but to emphasize the moral dimension. The budgetary stance of the Fund means that fewer schools and clinics are built, to the detriment of the poor. This and the other policies described above increase the risks faced by the poor. In some cases, such as capital market liberalization, these policies seem of questionable benefit to the country as a whole, though they might bring benefit to the financial communities both within the country or, more likely, abroad. But there have been sins of omission as well as commission: land reform would have arguably increased both equity and efficiency.

A General Perspective

Ethics has to do with an individual's relationship with other individuals, with the community and with society more broadly. Ethics involves the recognized moral rules required to live together in well-functioning communities. It is *wrong* to murder or assault or otherwise cause harm to another. But in modern societies harm to others can be done in a variety of ways—when an

[11] Interestingly, in the 1996 World Development Report: "From Plan to Market" on transition, the most successful transition—that of China—is given short shrift, being relegated largely to "boxes." Was this because its success—including its success in reducing poverty—ran so counter to the prevailing orthodoxy?

individual litters, he harms the environment, and hence injures the well being of anyone who values the environment. Simple maxims such as "do unto others as you would have them do unto you" or "don't do unto others as you would not have them do unto you" and touchstones such as Kant's categorical imperative provide widely accepted guidelines, though to be sure, the world is complex enough that the application in particular circumstances may not be obvious, or even unambiguous.

Earlier, we observed that from today's vantage point, we look upon slavery with hatred, and colonialism—and the colonial mentality—too is viewed as a violation of basic ethical norms. But is one man's—or one country's—imposition of his will on another, by force of economic power more acceptable than an imposition by force of military power? In the nineteenth century, the two were often intertwined, with military power being used to enforce economic obligations. Today, matters are, perhaps, more subtle, but does this make them any more acceptable? In ordinary life, it would be viewed as a breach of ethical norms to take advantage of an individual's temporary misfortune, but at the international level, this is sometimes seen as simply the natural state of affairs. Should the imposition of conditions on the countries that needed finance in the last global crisis—conditions that were unrelated to the crisis, or to the repayment of the loan—be considered a breach of ethical norms? Even if it is (at least from the perspective of the party imposing the conditions) for the own good of the other party?

We often talk about the "social contract." The social contract is never formally written down, but that does not mean that it can nonetheless still be broken, or be perceived to be broken. While the IMF argued during the midst of the global financial crisis that not repaying creditors was a violation of the sanctity of contracts, even though bankruptcy is a central institution in capitalism, they seemed to pay little attention to the violation of an even more important contract, the social contract. If, as a result of the erosion of the social contract, there is a weakening of social cohesion, in ways which lead to more violence, more corruption, more crime, what is the culpability of those who have contributed to this evisceration of social capital? To what extent should they be held *morally* responsible for the consequences, especially when these consequences are the predictable—if not inevitable, at least highly likely—result of their actions?

Concluding Remarks

The past half-century has shown that with growth, development is possible, but far from inevitable. It has shown too that growth with poverty reduction is possible, but it is far from easy. There are a host of on-going policy debates about the best way to pursue poverty reduction and growth. My concern in this paper has not been to rehearse that debate—though inevitably I have had to touch on some of the more controversial issues—but to suggest that there are dimensions of that debate which can usefully be looked at from a *moral* dimensions, from precepts concerning such values as honesty, fairness, and a concern for the poor. Some might argue that such language speaks to the heart, and not just the head. But I would argue that decisions about public policies inevitably need to speak both to the heart and the head, that it is important to think deep and hard about the moral dimensions of our economic decisions, and that one can, and indeed one should, combine this kind of moral analysis with a hard headed analysis of the consequences and risks associated with alternative policies. Indeed, the lack of a moral demand to do so has all too often allowed ideology to have sway—an ideology that dishonestly claims more favorable and more certain benefits than the evidence would support, an ideology that suppresses meaningful democratic discussions of alternative courses of action, and that ignores, or at least puts insufficient weight, on the adverse consequences to the poor. Thus, I see the new humanism as a complement to hard economic reasoning, not antithetical to it; and I see the two working together as holding the greatest promise for a future international economic order based on social justice.