

ECONOMIC INDULGENCES: OLD AND NEW DEBATES ON WELFARE AND FREEDOM

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INTRODUCTION

In this lecture, I will look at a debate in the 1960s between Frank Knight, the subject of my new book (2016) in Palgrave Macmillan's *Great Thinkers in Economics* series, and Henry Hazlitt, memorialized by this lecture. I will look at the dispute they had on welfare, freedom and power, which was an important debate then and now. I will take Knight's observations and apply them to today's debate on inequality, and what I suggest are the economic indulgences referenced in my lecture title.

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FRANK KNIGHT

Frank Knight was a curmudgeonly character, who I dare say, in our politically correct and overly-sensitive age, would not last long, and certainly would never make tenure, because as we know tenure means never having to say you're sorry. Knight was not the kind of debater or discussant easily given to flights of fancy or expressing misgivings. I assume at least a passing acquaintance with Frank Knight on the part of this audience, but perhaps a lamentably short intellectual biographical note is in order. Within the economic world today he is chiefly noted for the notion of Knightian uncertainty featured in his first book *Risk, Uncertainty and Profit*, establishing his reputation in the pantheon of economic thinkers on a book that was essentially his Ph.D. thesis. Knight was brought up in a conservatively theological home, which was also a Republican household. His early undergraduate work was actually at evangelical colleges in the neighboring state to this one, he attended colleges in Tennessee. In spite of all this, he grew up to have distaste for much organized religion, though he attended the Unitarian church for much of his life.

Aside from being "kicked out" of Cornell's Philosophy Department and a couple of stints at the State University of Iowa, Knight spent his academic career at the University of Chicago. He inspired an almost cult-like devotion among his students at Chicago, leading his students (which included most notably Milton Friedman, James Buchanan and George Stigler) to say there is no God but Frank Knight is his prophet. Knight was a co-founder of the "Chicago School" of Economics, but he was a teacher more than a theorist or producer of books. It is because Knight was essentially a teacher and a critic that he did not pen the major volumes one might have hoped for. Buchanan, who became a long-time friend and a Nobel Prize winner, notes in the foreword to the 1982 edition of *Freedom and Reform* that Frank Knight was a critic, and apart from *Risk, Uncertainty and Profit* his work "can be interpreted as a series of long book reviews." His work is thus scattered across a host of economic journals in essay form standing on the base of his first and major work *Risk, Uncertainty and Profit*, published in 1921. What ideas he had were stated, restated and then refashioned multiple times in various essays. Hence to synthesize his work, which I have attempted to do in my own book (2016),

means working through the remainder of his writings comprised of essays, lectures and book reviews, the most notable being collected in the single volumes of *The Economic Organization* (1933), *The Ethics of Competition and Other Essays* (1935), *The Economic Order and Religion*, with T.W. Merriam (1945), *Freedom and Reform* (1947), *On the History and Method of Economics* (1956), and lastly *Intelligence and Democratic Action* published in 1960.

Knight himself described his “social function” as one of “exposing fallacies, nonsense and absurdities in what was passed off as sophisticated scientific discourse.” (Knight, 1982 [1947], p. xi) His relevance as a great economic thinker for us today, apart from Knightian uncertainty and his status as a founding father of the Chicago School, can be stated in a threefold sense. First, he is arguably one of the most interdisciplinary of economists, and thus provides a basis on which thinkers can discuss economic issues from their own disciplines. Second, he raised issues that are prevalent in the latest stages of capitalism, and the issues we currently face and will continue to face in the future. Lastly, he was an economic realist who knew the weaknesses and strengths of capitalism, so while remaining a supporter of capitalism as the best system, he also addressed the limitations and difficulties thrown up by this imperfect way of organizing our economic affairs without overthrowing what he saw as an ultimately workable system. In pursuing this agenda, Knight found himself in a number of fights, specifically with Keynes and the Austrians, with protracted arguments in the 1930s with Friedrich Hayek. In many respects I would typify these not as full scale arguments, but instead boundary disputes, somewhat akin to members of the same club or union fighting over the rules of association. Which brings me to the boundary dispute that is the subject of this lecture, the one between Knight and Henry Hazlitt.

KNIGHT ON HAZLITT, APRIL 1966

The journalist Hazlitt and the academic Knight had a short but fractious relationship in print, which started from the lecture podium at Mont Pelerin and was waged via the pages of the journal *Ethics*. For his part, Hazlitt thought Knight’s attack on him was one quite unprovoked on his side. Having initially fired

a salvo or two at Hazlitt from the podium, Knight committed his more sustained attack to print in an essay published in April 1966, entitled "Abstract Economics as Absolute Ethics." In the essay, he offered a critique of Hazlitt's book *The Foundations of Morality* (1964). Knight refers to the work as a polemic, at the heart of which lie two chapters entitled "The Ethics of Capitalism" and "The Ethics of Socialism."

Knight started out by stating that Hazlitt's book demonstrated good workmanship and the makings of a good treatise on socio-political ethics. A kind of condescending "could do better" is the tenor of his remarks. This is because he surmised that Hazlitt's work contained many of the faults he believed that defenders of capitalism tend to have, namely that it was the kind of oversimplified, extremist propaganda that ignored changing theory and practice. Hence, he wrote, Hazlitt's work failed to deal with the complexity of modern society and defeated the purpose of the argument.

Knight outlines the content of the chapters as they apply to ethical rules, and turns to the question of justice, which he says is settled for Hazlitt by John Bates Clark's argument in his 1899 book *The Distribution of Wealth*, with its thesis "that 'Free competition tends to give to labor what labor creates, to capitalists what capital creates, and to the entrepreneur what the coordinating function creates.... [It tends] to give each producer the amount of wealth that he specifically brings into existence.'" This argument, Knight quickly points out, is fallacious for three reasons. First, there is only a general tendency, he says, to remunerate each productive agent. Second, society does not consist entirely of producers. Lastly, producers are not "economic men." Apart from the key factors of economic capacity, labor power, and managerial skill and property ownership, Knight points out that production also involves a large portion of "luck." Hence, individual production "is due much more to biological and social inheritance, for which the individual is not responsible, than to the individual's past efforts." Knight concludes that Hazlitt simply applies the principle of production too broadly.

Knight then turns to the ethical argument. Hazlitt summarizes capitalist ethics as a system of freedom, justice and productivity, which Knight argues cannot be precisely defined, besides which distributive justice has a number of meanings. The real point Knight wants to make is against Hazlitt's individualist ethic, which

he argues is individualistic to an extreme; to the point he never even mentions the family (Knight, 1966, p. 166). Knight goes on to say ethically one must "condemn the unfairness of an unequal start in the competition of life" and this "inequality inheritance" he argues tends to increase with each succeeding generation (Knight, 1966, p. 166).

It is this notion of "inequality inheritance" that is at the heart of the welfare question for Knight, and of course at the heart of notions of injustice tackled by many a socialist pamphleteer who wants to overthrow the capitalist system. Yet, to have socialism instead of capitalism is to replace business with politics, and Knight explains that many of the features most objected to in "capitalism" are in general similar in politics, though in his view "very obviously worse" (Knight, 1966, p. 168). They are very much alike in that functionaries in direct control inevitably have, he explained, "much arbitrary power and get their positions chiefly by competitive persuasion, or simply by accident." Rivalry, which he calls an instrumentally irrational motive, "is more natural to men than rational co-operation." Although it permeates both, Knight states this competitive persuasion takes the form of propaganda in politics and sales activity in business.

They do, however, also differ. Firstly, no-one has the power or effective freedom to form a state or jurisdiction, while there is some, albeit limited power, to start a business enterprise; obviously for Knight, limited by access to investment, skills, inheritance, and so on. Second, people are born into a state and family, but in capitalism they can choose membership among many organizations, and so for instance a laborer has a wide choice of employers to work for.

In pursuing our choices we seek better conditions, and Knight explains that when social groups seek better conditions, which they feel are rightfully theirs, their efforts can create social problems since social changes that benefit some can lead to a worsening situation for others. This can lead to a conflict between freedom and progress. For this reason, social conflict is not necessarily the oft-stated problem simply of order. It becomes a problem of power, and I will return to this later, but first let's see how Hazlitt responded to Knight.

REPLY TO KNIGHT OCTOBER 1966

For his part, Hazlitt (1966) said, "Space does not permit me an examination of Knight's own obscure pronouncements, though they seriously need one." He does, however, offer up a defense against Knight, with the opening salvo of calling Knight's original attack at Mont Pelerin "a strange performance." Hazlitt stated he did not recognize the opinions attributed to him by Knight in the written assault. He rebuts a number of the points Knight made, and explains that his book as a whole is neither polemic, nor are the two chapters Knight singles out at the heart of the book. Contrary to Knight, Hazlitt explained the heart of the book is the much earlier chapter 6 on "Social Cooperation," although the same could be said he suggests of chapters 7 and 8, or even the conclusion, but certainly not the chapters Knight singled out. He also rebuts a number of specific points; including the ones I have drawn attention to earlier. These are not important to go through, and I suspect they are simply a case of an academic and a practitioner talking past each other.

Hazlitt set out what he considered to be the essential justice of the capitalist method of distribution. As Knight noted, Hazlitt was drawing on *The Distribution of Wealth* by John Bates Clark (1908 [1899]). The central thesis Clark put forward was the point I quoted earlier, and merits repeating here, that "free competition *tends*," a word Hazlitt italicizes, "to give to labor what labor creates, to capitalists what capital creates, and to entrepreneurs what the coordinating function creates...[It tends] to give each producer the amount of wealth that he specifically brings into existence" (Hazlitt, 1966, p. 60). This is the point Knight called fallacious. Hazlitt points out that Knight is at pains to make the qualification that this is a tendency, but as Hazlitt's italics demonstrate, this qualification is in the original quote. To which Hazlitt adds that in his own book he explained certain qualifications were necessary, and he was well aware Clark's thesis had been contested. However, he suggested much is overlooked in the dispute with Clark, and what he wanted to do was to correct this by drawing our attention to three matters.

First, Clark was rebutting the Marxian argument that capitalism systemically exploits labor and robbed the workman of his produce.

He argued that Clark in fact proves that the capitalist method of distribution is not inherently unjust, which many people believe to this day, and he states that this falsehood has given rise to "unrest, resentment, demagoguery, revolutions, and wars that now threaten to destroy not only "capitalism" but civilization itself." Second, Clark in Hazlitt's view demonstrated the tendency of the competitive market system to give to each what they create and this is in accord with the most generally accepted principle of distributive justice, at least in the first instance of economic reward for labor. He explained there is then nothing to stop people to redistribute their wealth voluntarily, and indeed capitalism does nothing to hinder or discourage charity and generosity. What is problematic is the attempt to coerce by means of a socialist or equalitarian rule a redistribution that ignores effort or efficiency, and destroys incentives and production. True justice, Hazlitt argues, is not achieved through a "leveling down." Lastly, Clark was not really describing a purely economic system in his description of capitalism and its consequences, rather he was describing a legal system that protects property rights, promotes free labor, markets and wages, enforces contracts and regulates against fraud, violence and other illegalities.

Hazlitt argued capitalism evolved over centuries and had a moral origin. The evolution of capitalism, unlike the socialist and communist revolutions, was never instantaneous or expedient. And so the real oversimplifiers (and recall this is what Knight called Hazlitt) are those who contend ethical and legal considerations are irrelevant in judging capitalism. So, after an interesting passage of defense, Hazlitt returns to Knight and concludes "I find Knight's article rambling, fuzzy, and full of inconsistencies. Even after a second or third reading I cannot decipher." (Hazlitt, 1966, p. 61). On this criticism, I certainly experienced Hazlitt's sense of a terrain that was rambling and difficult, but I hope for my reader's sake I have successfully deciphered his work.

KNIGHT'S RESPONSE OCTOBER 1967

Exactly one year later, Knight's response to Hazlitt's defense was published, with the telling title "A Word of Explanation" (1967a). Knight does not attempt a formal rejoinder, he says, rather a

clarification. While he notes the odd *touché* or two with Hazlitt, he responds by clarifying rather than admitting a defeat on the point. This is a little like when an Englishman says “with the greatest respect” and then proceeds to insult you. So having said, with the greatest respect, Knight states that the major fault with Hazlitt’s book is the “constant harping on co-operation,” which Knight argued was never defined and neglected its opposite, rivalry. For his part, Knight thought of cooperation as implying freedom and “discussion” as a means of reaching free agreement. Knight concluded his rejoinder by accusing Hazlitt of making sweeping statements of half-truths; and, I should point out here that Knight himself was accused of the same crimes by his own critics at various points during his career. He goes on to say, “I regret my critique being so negative; but some clearing away, even of rubbish, often precedes building; and social construction is a complex and hard problem. If Hazlitt-style propaganda is politically effective, I dread the consequences for the better society that might be had through wiser policies” (Knight, 1967a, p. 85). His last word in these exchanges is “And anyhow, blessed are they to whom all things are simple; and in pudd’nhead Wilson’s adage, it’s differences of opinions that makes hoss-races” (Knight, 1967a, p. 85).

Having looked at the demarcation dispute between Knight and Hazlitt, we can delve a little deeper into Knight’s notion of cooperation, which has the three aspects of welfare, freedom and power. There is not sufficient time to go in depth into each of these, but I would like to highlight some of the key points of each.

WELFARE

At the core of Knight’s conception of welfare “is the premise that economic welfare must not be identified with aggregate (i.e. allocative) economic efficiency. Rather, welfare must be seen as the sum of economic freedom, the balance of economic power, and economic efficiency” (Nash, 1998, p. 161). He also offered an argument that the outcomes of imperfect competition reflect the relative power imbalances in an industry, and these outcomes are fundamentally unfair. We can extrapolate from this the general conclusion for all markets that unconstrained self-interest will not always lead to fair outcomes, or outcomes beneficial for society

as a whole. This is a challenge to the “invisible hand” of Smithian economic thinking, and provides an alternative notion of perfect competition to orthodox economics, critical to which is Knight’s conception of economic welfare.

Thus, in looking at welfare, Knight draws our attention to the relationship between the ‘economic’ and ‘moral’ domains of our society, arguing that self-interest cannot maximize the value of the aggregate ‘social welfare function.’ (Nash, 1998, p. 165). He refused to separate the intellectual from the moral pursuit of understanding society, nor could he accept there was a way of having widespread agreement on the goals of social policy. The idea that social and economic thinking can achieve the best ends for society is not an idea agreeable to him. The problem we face in social policy-making is one of values, not of facts, he argued, and social problems arise through conflict caused by the mere assertion of opposite claims. In a market society, a price theory amounts to a value theory because price is the means by which we arrive at agreement between individuals in exchange. Yet, we have higher wants and goals of conduct with which to test our values, rather than simply having a system that accepts and satisfies wants.

We see in his analysis how Knight used his “economics” and “social philosophy” combined to help us understand the human predicament. If we simply look at the competitive system as a wants-satisfying system, then we will see into a mirror that reflects back who we are rather than what are our highest ideals. Knight argued that the social order we have may gratify us, but it also shapes our wants, and hence our system must be judged ethically by the type of character it encourages and forges in the people within this social order, since giving the public what it wants “usually means corrupting popular tastes” (Knight, 1935, p. 49). The problem emerges, however, that price is the measure of efficiency and reflects what the people really want, through their free choice in the market, while also leading to the corruption of public taste. Yet, who is to say what is in good taste? Is this not simply liberal elitism? In the conclusion to my book *Economic Parables: The Monetary Teachings of Jesus Christ* (2007), I make the point that the economy is like a mirror. If we look into the mirror and think we look a little ugly then smashing the mirror is not going to make us look any prettier. The problem is not the system, it is us.

FREEDOM

Put plainly, for Knight economics is about freedom. Knight's essays in *Freedom and Reform* were collected and published in 1947, essentially as a sequel to the 1935 *The Ethics of Competition*, and again on the initiative of some of his former students. The major theme of the work, as the title implies, is freedom, but the reference to reform makes this very much a Knightian expedition, as he sought to mount an attack on any superficial grasp of freedom, and root it in some deep economic and philosophical soil. If we think of freedom in terms of *laissez-faire* then Knight, in his major essay *Laissez-Faire: Pro and Con* (1967b), explained that the relationship between *laissez-faire* and government control cannot arise outside of an economic and political order operating under market conditions. He argued it is absurd to draw strict battle lines between *laissez-faire* and "planning." He explained that humans are social animals, and social life sets many limits to freedom, which includes social and welfare issues. He also explains that *laissez-faire* has been rapidly modified down the ages by political regulation, but how far this change will go he suggests is a question for prophets. The point remains: we need to recognize the necessity of a democratic political order and its inherent limitations on freedom.

Certainly, Knight is in the business of supporting the market, but this means addressing the significant challenges faced by capitalism in respect to freedom and equality, and there are many aspects of inequality to consider in the Knightian view. He accepted inequality as an inevitable outcome of freedom, even if at times it leads to unfortunate outcomes for some. The past is very much a foreign land in Knight's view, making freedom he wrote an "historical anomaly. A few generations ago the opposite was the case; conformity and obedience were moral norms of social life" (Knight, 1960, p. 112). Complaints about inequalities, big business and monopolies are for Knight borne out of a romanticism, and he argued this is not the way to confront the real economic problems we face, though he is by no means denying the seriousness of the problems that exist. What is essential for Knight is that such romantics need to see freedom as the core sentiment, if we are fully to understand economic society.

POWER

Ultimately—and this is at the heart of Knight's welfare approach—social policy must deal with power and weakness as well as freedom. He finds Hazlitt's conception of freedom problematic and ignorant of the problems of weakness and rivalry. He argued that Hazlitt failed to address adequately the relations between freedom and power, and this is related to his treatment of equality and inequality. A proper treatment would recognize that "serious inequality of power, especially economic power, limits the effective freedom of the weaker party, and, if extreme, destroys it, making him helpless" (Knight, 1960, p. 174). Freedom thus effectively depends on power, which is power an individual possesses with meaningful content only insofar as the person has means and effective freedom to exercise their power, which for half the normal population means little, as they have no such power or means.

As noted, people will aspire to improve their position, which they will do by improving their wealth and income and by gaining distinction and power, and they will do this in any way open to them. This means using whatever power they possess to persuade and influence. To get influence they must get attention, which is what people want anyway, and he says it is at "this point that social rivalry is most acute, and free society often seems to be mostly a phenomenon of competitive "screaming" for notice in one connection or another" (Knight, 1960, p. 173). Such attention-seeking, he says, refined people find repugnant, while the Marxists would hope their dictatorship would educate this out of human nature.

Hazlitt's individualism, in Knight's view, ignored these problems of power, weakness, rivalry and inequality. For Knight, "the family, not the individual, is the effective unit in society, because he explained "differential inheritance—particularly of wealth—entails an unequal start in the competition of life, which violates fundamental individualistic ethics" (Knight, 1960, p. 174). Knight typifies Hazlitt's approach as an ideal of a primitive society or small tribal groups with face-to-face interaction, and he operated under what Knight called a "cheerful assumption" that if society let men be they will cooperate rationally based on known rules. In contrast, Knight has a somewhat Augustinian view of human nature, and as such believed something akin to original

sin militates against any such hope. In contrast, Knight's understanding is that people—to be moral—must change themselves and then by mutual understanding change the world. This is what he means by discussion. This is also a very theological approach to the problem, found in conservative and Augustinian schools of theology. To paraphrase Luther, you can try and rule the world with the Gospel, but you better fill it with real Christians first. In other words, we remain in a world of conflicted values.

So, what kind of discussion of values can we have? Perhaps we can conclude that Knight fails on his own terms, because as he himself states, people are “screaming” for attention for their cause, and whatever change results is likely to be disagreeable to others. He is certainly right about the screaming, though goodness knows what he would make of today's presidential primaries or the attempts to pull down monuments of the past because of racial politics. Knight is not against change, and he certainly does not want to see things stay as they are. Neither is he a progressive.

A WORLD OF INDULGENCE IN NEED OF COOPERATION

In concluding this lecture, I want to set out in a Knightian way how we can come to terms with the moral question of modern capitalism. In the Knightian view, there is inevitability about inequality and the conflict between various desires. The problem of equality and inequality lies at the confluence of welfare, freedom and power. We see inequalities in developed nations and emerging nations. We see different levels of poverty. There is not sufficient time to go into the nuances of these differences. It must suffice to say when we think of extreme poverty in Africa, for instance, the causes are similar to our own—it is more a matter of scale. The problems of Africa, and the contradictions of wealth and poverty on that continent, reflect the same root cause I am about to unpack in drawing this conclusion. Just as capitalism brought many out of poverty in the west, so it can in Africa and elsewhere. The nations cry out for a legal and political system complementary to capitalism and technical assistance, but are at the mercy of corruption and skewed property rights.

All of which brings me to today and the problem I identify of indulgences, of which there are many, but I will unpack the main

kinds. I suggest we live in an era of emotionalism, or emotional indulgence, where what one thinks is less important than expressing what one feels. Rationality does not trump giving offense. This emotionalism leaves many people in a spiritual search in the economy and in this search they are looking for easy ways, looking for indulgences. I borrow the term indulgences from the turning point of the medieval period that led to the Reformation, and a new age of enlightenment. As we all know, Martin Luther railed against the selling of indulgences in the Western Catholic Church as an easy morality, a forgiveness of sins without conforming to God's will. It was merely the buying of a certificate.

Today's indulgences come in the form of cash till receipts for free trade and organic produce, as people scream out the "gotcha" examples of extreme poverty in Africa and environmental damage caused by "big business." It comes in the form of Occupy Wall Street and other protests, as they point the finger at the bankers and financiers. It comes in the form of celebrities campaigning for a better world and against capitalist greed, which naturally they do as CEOs of their own multinational businesses. It comes in the form of the runaway sales of the book on capital and inequality, by French economist Thomas Piketty. All these instances admirably demonstrate I suggest that the specter of inequality is never far away in the consciences of the Left, but very distant in terms of solving the actual problem of inequality.

For what is inequality? If we listen to Knight, it just is. It is unavoidable. We can do something about inequality in a limited sense, but only through discussion and cooperation. Perhaps the instances I just suggested are Knightian discussions. After all the celebrities and protesters are all discussing the problem aren't they? Well, yes, but in a somewhat self-serving way. They are long in talking and "caring" about the problems, but well short of a realistic solution. The challenge is to solve the problem, which is why Knight argued passionately in favor of capitalism. It helps far more than it hinders, a reversal of the Leftist view, so we need a balance or nuance in our understanding of capitalism if we are to make the world a better place, and even then we are unlikely to make it a better place for everyone due to human nature.

If we take the working class of which Marx wrote so passionately, it has improved its lot greatly. Indeed, in his own terms many of

the working class has become bourgeois. This change is a process of embourgeoisement, though this was reportedly dismissed for good by sociologist John Goldthorpe back in 1963. But the world has changed a great deal since Goldthorpe was writing. The “working class” today takes foreign holidays, owns property and even goes to the opera on occasion. The definition of poverty today is more related to how many cars or TVs you have, rather than subsistence. More significantly, poverty today is more defined by desire, in terms of satisfaction of wants and social aspirations, than needs. What we have to some extent is an inequality in satisfaction of desires rather than needs, though again I hasten to point out that middle classes and liberal protesters seem to have their desires satisfied by taking to what they see as the high moral ground. It is because the problem is one of desire that resentment has been breeding amongst the middle classes, especially since the 2008 recession.

The reality is that in terms of income, the poor have benefitted from the creation of wealth under capitalism; this is its great strength. We have all seen the graph of income as flatlining from the exit to the Garden Eden until the 1750s, and then moving on a steep upward curve ever since. While communists under Stalin and Mao were being executed, the poor in the western economies were buying their own homes. During the time of communism, however, intellectuals and leftists could always pretend there was an alternative. Their economic theorists could posit alternative universes. The fall of communism, and the victory of the market, appeared to show there is only one economic system—albeit flawed—but as Knight argued it is flawed because it is a system that deals with scarcity amongst flawed humanity. This system may have triumphed, and poverty may have changed, but what has not changed is the socialist bourgeois guilt over the continuing presence of the poor; hence the popularity of the Piketty book and the crowds at Occupy Wall Street gigs as they contemplate their own difficulties. Though, as I stated just now, I suspect the problem has much more to do with resentment than guilt.

Whatever it is, guilt or resentment, the fall of communist and socialist systems due to capitalist economic change, and I would add the inevitable impact of reality, has broken apart Marxism, socialism and communism. However, they have not disappeared altogether. There may be a systemic breakdown, but the same

instincts remain, and these instincts are dispersed in the shattered pieces that remain in the range of causes and groups that challenge the basic assumptions of capitalism in much the same way as these grand movements tried to do. Yet, while they are dispersed, they are not freely blowing in the wind. They have become part of the capitalist system itself. To which I may add there is a significant market for these causes. Radical chic sells.

There is another indulgence, which you can find on both sides of a narrative about the ills of capitalism. On one side, we have the "social responsibility" executives, who have both the wealth and the salve for their consciences. They jostle for attention alongside the Wall Street protesters I mentioned who seem to have the time, technology and money to camp on the streets instead of working or looking for work. This is a far cry from the working classes that needed to break apart their chains; it seems they are the workers who simply prize open their wallet. Thus, the problem of inequality is a middle class problem. Of course, there has always been an air of the snob around the left, a middle class enclave that looks down at the working class as their own personal playground. This thought came to me recently, on another continent, when I heard a Corporate Social Responsibility person say how they wanted to visit poor areas, to see how "real" people live in the particular country we were visiting. It seems the Left has to travel further distances, and expand their carbon footprint, to fulfill their fantasy of how the poor live in need of their help. The so-called "anti-capitalists" and "anti-globalization" camps that periodically spring up, oddly in times of recession, are the modern day kibbutz for the spoiled to search for meaning in their own life. They still imagine a life of the greedy boss and the despoiled and alienated worker.

Such a view is out of touch with reality. Companies today are focused on employee engagement, because recognizing the engaged and interested worker is more productive. This is the antidote to alienation. Indeed, alienation is not the preserve of the factory worker or the low-paid. Many people in the workplace and in society feel this way. Managers and government bureaucrats alike can feel alienated from the workplace or the goals of the business as well. They too can be trapped by the mortgage or the sense that they lack advancement. The path to better engagement is dialogue, connecting people to each other in the workplace in

a common cause, not trying to find reasons to divide them. Ultimately, in searching for our material satisfaction, we ought to be questioning what we are searching for beyond the economy not just within it. Before we get carried away with this, however, we have to recognize that whatever our search, and whatever our role in the economy, it is curbed by human nature, both ours and others'. As Jean-Paul Sartre said, hell is other people.

Of course none of this is very romantic. It is essentially a question of power. In the economy people can feel powerless, and the same may be said of our political system, both points made by Knight. It is wonderful that the market economy has moved so many out of poverty and low incomes, but it seems that we are a generation that remains in search of spiritual meaning. Our material status does not answer the spiritual problem, except perhaps in the mundane terms of retail therapy. It is simply the other side of a coin. To use again Marx's famous image, we can see this as the switching of one set of chains for another. The historical move we have seen is the freeing of the chains of poverty for vast swaths of the population only to find themselves feeling chained by the materialism and indulgences of our age. This is what is revealed by the middle class recession we witnessed these past few years, because the working class has become middle class in relative terms and a larger middle class, overextending and indulging itself through debt and property speculation, got caught out by the inevitable force of economic gravity and resent the impact. After all, when house prices were going up I don't recall anybody ever complaining to me how much their home is "worth," so why complain on the way down? What suffered was their desire and expectations, and this impacted their pocket and consciences.

No matter how successful our economy, or even if humanity triumphed in the way the Left dreams, the problem will not be solved on material terms. Our economy is a reflection of our human condition. It puts numbers on what we truly care about, and this has to be the starting point of any moral understanding of the economy. Knight is correct. We do need to face the brutal reality of inequality, and we ought to recognize the inheritance deficit and help others to have a start in life, but what policies and social attitudes are necessary to tackle these is the question. There also needs to be a point where we say enough is enough, and not

allow the emotionalism to dictate economic policy, which has two impacts in terms of how we might cooperate to tackle inequality and social welfare. First, we need to educate people better in fundamental economics at school so we can have better informed and more realistic discussion about economic matters, which will make cooperation more informed. We obsess about teaching God and sex, so why not money? Second, we need to turn away from the emotionalism of our times and recover the enlightenment idea that we are not simply sentient creatures; we are creatures of thought. Cooperation is a rational activity, not an emotional one, and indeed emotions tend to get in the way of cooperation. The curmudgeonly Knight may have set a high bar on this point, perhaps too high, but I fear we will make little progress politically or economically in these times if this attachment to emotionalism does not change in favor of economic realism.

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