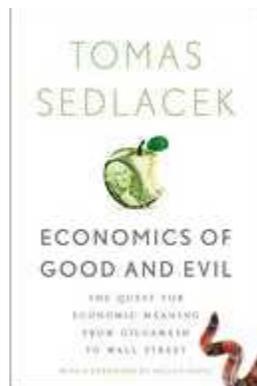




## Economics of Good and Evil: The Quest for Economic Meaning from Gilgamesh to Wall Street

Tomas Sedlacek , Joanne J. Myers

October 5, 2011



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### Introduction

**JOANNE MYERS:** Good morning. I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I want to thank you all for joining us.

It isn't often that one can say that a particular book has shaken a respected field of study. Yet with the publication of *The Economics of Good and Evil: The Quest for Economic Meaning from Gilgamesh to Wall Street*, our speaker, Tomas Sedlacek, has done just that. He has turned the signs of economics on its head.

But the interesting question is not so much why, but how. By moving away from today's concept of economics as a mathematical science, and enlisting the wisdom found in myth, religion, philosophy, and science in times past, Mr. Sedlacek explains values underlying modern economics. In doing so, he challenges our assumptions about the world. In some ways, this may not be all that surprising, since long before economics became its own discipline, it lived within the subset of philosophy, especially ethics.

In *Economics of Good and Evil*, Mr. Sedlacek argues that mainstream economic thought has neglected ethics for much too long. Therefore, he looks to the past to show that, from the beginning, economics has always been about morality, grounded in what is good and what is evil.

He begins his search for economic thought by looking for the first traces of economic inquiry in the epic of the Sumerian king [Gilgamesh](#), and moves on to explore how Jewish, Christian, classical, and medieval minds considered economic issues. He also investigates the theories of those who lay the foundations for contemporary economics, such as [Descartes](#), [Mandeville](#), and [Adam Smith](#), who in 1776, when professor of moral philosophy at Edinburgh University, gave birth to economics as a science with the writing of *The Wealth of Nations* and his earlier work, *The Theory of Moral Sentiments*.

Mr. Sedlacek is a widely admired economist who the *Yale Economic Review* named one of the "five hot minds in economics today." He first worked as an advisor to [Vaclav Havel](#), the first Czech president after the fall of communism, and sits on the National Economic Council in Prague. He is a regular columnist and popular radio and TV commentator in his country.

The original version of this book was a national best-seller in the Czech Republic and was also adapted as a popular theater piece, which he just told me this morning is going on to London. So eventually it will make its way here to New York.

**TOMAS SEDLACEK:** Getting closer.

**JOANNE MYERS:** Getting closer, closer, right.

As the *Economics of Good and Evil* takes a step forward in presenting alternative ways of studying economic thought and inspiring new insights, among the many questions Mr. Sedlacek asks are these: What do we really believe; where do our beliefs come from; and what is the meaning and the point of economics?

As economics becomes more important to our everyday life, and the artificial models seem of little use when it comes to understanding today's reality, Mr. Sedlacek does a wonderful job of asking the right questions. But, more importantly, he leads us to finding the right answers.

Please join me in welcoming our speaker today, Tomas Sedlacek.

## Remarks

**TOMAS SEDLACEK:** Thank you very much for having me in this wonderful town, in this wonderful place, in this challenging time.

Let's start with current affairs, as we should, and let's give five minutes' consideration to the [Wall Street protests](#) that are taking place not far from here.

Now, this is, again, [Hegelian](#) and [Marxist](#) tradition. This is not a proletariat demonstration. This is not the poor. This is not people who want more rights for themselves, more money for themselves, or more justice for themselves. These are intellectuals that are complaining that there is something wrong with the matrix—like a splinter in our head, we know something is wrong.

Now, they're not alone in this effort. If you actually go down [Amazon](#) or any other best-seller list—I challenge you to do this, it's a wonderful exercise—best sellers in economics, what will you find? Ninety-nine percent of these books are books extremely critical of capitalism. You will hear words like "irrationality," "myth," "crisis," "collapse," "evil," et cetera. There is not a single book that actually goes on praising the advantages of this beautiful system called capitalism.

So, first observation: these people, these intellectuals who are striking, or whatever it is, bringing attention to these issues, are not alone. They're actually supported by a vast majority of top-notch academicians and economists.

Now, let's have a look at what is the problem. The question is: "Does the system behave the way we like it to behave?" The answer to this question is: "No, it produces results that we are unhappy with—some of them, not all, but it does."

So, "Does the system behave the way we want it to behave?" is ultimately a moral question, one that we are banned from asking. In economics, this is exactly the sort of a question we're not allowed to ask, because economics is supposed to be a positive science, not a normative science. The difference is clear: positive statements should describe things as they are ("facts only, baby"), whereas a normative statement describes things the way we want them to be.

Let's take [Milton Friedman](#), who was, of course, the biggest proponent of positive economics. He wrote the famous essay "Economics as a Positive Science." In that essay, on the first page, you will find the following sentence: "Economics should be a positive science." Now, please tell me if that is a positive or a normative statement. [Laughter]

So you can't even say it without being normative. Because, obviously, if economics was a positive science, then that sentence would be redundant. And all he's saying is "I, Milton Friedman, would like it to be different than what it is and I would like it to be value-free." And, by the way, value-free is a huge value, one we economists happen to believe in very much. So, even linguistically, it is impossible to have a social science as a positive science.

Now, what happens? Let's take a leap and try and connect economics with pop culture, and let's take a look at horror movies. It's important for us to study this because our dreams, our hopes, appear in movies and in advertisements.

A typical example is: It's a Monday morning, the family wakes up, and everybody's happy, smiling; the husband is very kind to the wife—like this ever happens in real life—and the kids, and it's because of this particular yoghurt that you bought. This is the meaning of the advertisement: "Buy this yoghurt, and your Monday morning will be like heaven." Or, "your clothes will be always clean." Advertisements are heaven on earth, are a picture of that.

So this is what we strive for. This is the goal of economics. And, of course, the adverts make you pay for that heaven.

And the fears of what we really fear appear in horror movies.

Now, what happens if you separate the soul from the body? We each have a soul that has a body, or a body that has a soul, any way you like to look at it, and we are together. The soul gives it meaning, humanity, and the body is sort of a machine, if I simplify this.

What happens in horror movies if you divide these two, if you take the body, and you rid it of a soul? You get a zombie or any other form of undead. And if you separate the spirit from the body, you get a ghost. So if you disjoin these two, it's not good.

The common plot is: I have a lover; she becomes a zombie, and she starts attacking me. She is no longer this beautiful Joanna or Jacqueline or whatever she was. She now becomes a mechanistic animal that only wants to eat and reproduce by biting.

And spirits haunt us. The fear we get from spirits is different. Spirits don't attack us in most of the horror movies. They just stare, and they want something of us, and they accuse us. It's as if they were a super-ego, and they haunt us or attack us because of some moral misdeed we did. Just watch horror movies carefully, and this is the plot: something happened, and spirits haunt us, stare at us, want something of us.

Now, I argue the same has happened with economics. We've split the body and the soul, techniques from ethics. And what you get is a zombie that attacks, optimizes, maximizes, is mechanical, doesn't have a soul, doesn't have a purpose, and it is doing sort of vegetative functions, which is eating and multiplying, on the one hand. On the other hand, we have ridiculous moral standards that blame us, that condemn us, and that know nothing. This is what happens when you separate the two, and this is what we have done.

This is, I think, one way how to read the protests: We are here feeding a zombie. We are not directing the body as we should. The soul represents kindness, humanity, purpose, aim, meaning, poetry, whatever. It is not—and this I think is a new thing—it is not well when it is alone. Ethics do not do well when they are alone. Nor does philosophy, nor does poetry, nor does anything else.

And of course in the beginning, economics was ethics, basically, and nobody tried to separate it. In fact, we had to go through a huge effort to separate it. It has led to results that are ridiculous.

So we are trained—and those of you who studied economics know this—we are trained not to have things value-laden. And it's impossible to do it.

Let's take a more specific example. You have an analyst answering a question on TV: "What was the inflation in May?"

The analyst says, "It was 0.4 percentage points."

What's the next question: "Is that good or is that bad?"

And often you don't even have to ask the question. The analyst rushes in, "Oh, when the Fed should or shouldn't, and this is good and this is bad, and blah, blah, blah, blah." So you see it's embedded in the most simple example of our everyday economy.

Another example is, I often like to say that the Asians had more wisdom when it came to fiscal and monetary policy than we have. The oldest business cycle in the history of mankind is—you all know it, only it's from a little different sphere than where you usually look. Sunday school stuff.

**PARTICIPANT:** The Bible.

**TOMAS SEDLACEK:** The Bible, yes. We're zooming in. The first book of Genesis, the first book of Moses—Egypt. So Pharaoh has a dream about seven fat cows—and here I always have to be careful not to look at anybody [laughter]—seven fat cows and seven thin cows. Pharaoh doesn't know what to make of this. So he summons Joseph, and Joseph says, in today's language, "Congratulations, Pharaoh. You just had the first ever macroeconomic prediction fourteen years ahead of time: seven years of GDP growth and seven years of GDP decline."

I have many analyses of this on YouTube so I will not repeat it. I will just ask the question: What revealed the future in the past? In the past, the future was revealed in dreams, as we see here.

What reveals the future to us today? Models.

Now again, these two things seem to be the exact opposite, and I'll try to show you that they're not.

Because how do we construct models? With our eyes closed. We imagine a world where friction of air doesn't exist. Let's imagine that friction of air doesn't exist. That's the only situation where the formula for freefall is easy; otherwise it's very complicated. Of course this is folly. Thank God the friction of air exists; if it didn't, we would all explode in a second.

Let's move from physics to economics. Let's close our eyes, and let's imagine that human beings are rational.

Are they really rational? Well, not really. I mean I haven't met one yet. But let's just imagine. Let's live a dream—this is what [Descartes](#) does. We should take him literally.

In his [Principia](#), the first principles of meditation—this really truly was a meditation, where he was trying to get rid of his senses, and he constructed the first scientific theory in a dream. He says: "How do I know things are real? Because in a dream, it looks real, it feels real, it even smells real, I can touch it. The tree seems real. But it's in a dream. So let's get rid of all the physical empiric impulses."

Well, it must exist; something of the tree must exist. If you're my dream, a beautiful dream, then there must be something that exists.

But the point: he also constructed the first foundations of science in a dream. Models are nothing else but some sort of social dreams. I call it "social science fiction." We have science fiction. Why not social science fiction?

The last point that I want to talk about—because I really want to have as much time for the debate as possible—is the issue of interest rate. What is wrong with interest rate?

As you know, you would never connect interest rate today with morality on a normal day. Now, we have to. In the year 2009, is it fair that these guys get the bailout, these guys' debts are forgiven, and the other debts are not? But normally, on a normal day, a sunny day, a sunny-side-up sort of a day of globalization—let's say three-four years ago—nobody ever thought of connecting this boring technical issue of interest rate with morality.

By the way, one comment under the line: Our problem today is not technical. The technicality we've done well. The problem is elsewhere.

This problem that we are in will not be remedied by technicality. It's like you have the zombie without a soul. My argument here is we have to put it back together.

This is, I think, the story that we have in our heads: there is the economy, which is value-free, a robot; it is God-given, it is unchangeable, it has laws of nature that were always here, and there's nothing you can do about it. The only thing you can do about it is bring in the state, or NGOs, or some sort of charity to cushion it, so that the poor are not as poor, so that the rich are not as rich. We create artificial pillows around it. But we never touch the very engine of economics. There we believe it's physics.

And, by the way, one final comment about physics and economics. We've purposely built economics, which is a social science, as physics. If you open a textbook of economics, it will look like a physics textbook from a distance—graphs, simple casuistic equations.

No wonder we've created a zombie. It was alive; we are studying human beings, and we use the tools of studying dead objects—because that's what physics studies, it studies dead objects. Which is fine as long as it is dead objects that you're concerned with. But not human beings, and not organic society.

Let's go back to the interest rate. In the beginning, interest rate was extremely moral, a moral issue. All the Asian ancients were extremely critical of usage of interest rate and usury. For reasons that we don't really understand—you can go [Aristotle](#), you can go Old Testament, you can go to the Holy Qur'an, you can go to the New Testament, you can go into the [Vedas](#), you can go anywhere you want to—all the Asian ancients said, "There's something spooky about it. Avoid it."

We don't know exactly why. The best argumentation against interest rate was done by Aristotle. Still very weak argumentation. I will not go into that unless you want me to, which we can in questions and debate.

Okay. Fast-forward till today. What have we done? We have made interest rate a cornerstone of our society. Our society is unimaginable without it. In fact, I think it will go down in history as the Debt Age. We had the Iron Age and Ice Age. We have the Debt Age. There has never been a society as dependent existentially on debt.

In America, you graduate, you're indebted already. You very rarely start a business without initial injection of

debt. Same with houses.

Now, what is the problem of an interest rate? Well, interest rate makes money time travel possible. You can look at money as a form of energy, which is easy. I can give you \$10,000; what I'm really giving you is some sort of energy. You can enjoy the evening modestly, and I cannot. I've accumulated some sort of energy, which I then can—I don't know—build a house. So it is a form of energy.

This energy can time travel. It's like in [Star Trek](#)—"Beam me up, Scotty." And the teleporting machine is called interest rate. If we didn't have interest rate, money could not travel in time.

Let me give an example. If I borrow \$10,000, it looks like I'm borrowing it from a bank, or from a friend, or from, more likely, mother-in-law or father-in-law. But what I'm really doing is, I'm just teleporting my future income into the present. It doesn't really matter who is the interceptor or the mediator of that. But I am vacuum cleaning my consumer energy from the future to the present.

We have to be very wise in manipulating what is energy. You can run the same story with fiscal policy as with monetary policy. It is also fiscal policy. There you manipulate with debt, but it is also a manipulation with energy.

Now, again, I enjoy using examples. In this, interest rate is similar to alcohol. How? Well, alcohol can also time travel energy over short distances, in only one direction.

Let's take an example. I think some of you are already getting it. On a Friday evening, when we feel like jumping up in bars, we suddenly can sing, we're very sexy, and we talk to girls—in my case, that I would never have the guts to talk to—and, what's even more surprising, they talk back. We often think that this extra energy and this *jouissance* is brought to you by alcohol. No. The only thing alcohol does is it vacuum cleans and teleports your Saturday morning energy into that Friday evening.

But the energy of the weekend is constant. Now, it is fine to get drunk on a Friday evening, if you have nothing important to do on a Saturday morning. It is not clever to get drunk on a Sunday evening if you have something important on a Monday morning, which a lot of people have.

Now, where does the allegory tie into interest rate? This, I think, is one way how to read the crisis. This is why I think the ancients were so afraid of interest rate, because there the time travel is over 40 years, and there is no mathematical or any other way how to see the future 40 years ahead.

We can with some reasonable foresight know what is going to happen tomorrow morning, and I know if I have a meeting or not. Most of these joke movies are when this collapses: suddenly you're drunk and "Oh, I have an important meeting to do." So it's funny and laughable. But, in fact, there is nothing funny about having a hangover on a Monday morning.

So 40 years there, 40 years back—this is one way how to read the crisis—we've landed with zero energy, being hung over on a Monday morning when we need this energy. That's why this is scary. That's the scary part about interest rate, and that's the spooky part of interest rate.

Let's go into the debate, if that's okay.

**JOANNE MYERS:** There is no question that this is just the tip of the iceberg of this book. The associations are free, fast flowing, and terribly interesting.

## Questions and Answers

**QUESTION:** Alan Young.

Most people would agree that the fiscal crisis of 2008 was basically due to the irresponsible acts of the banking sector, the financial services sector. Many people thought that as a result of that, there would be significant movement towards the left. But, in fact, since 2008, if there has been any significant political movement, it has been to the right.

We've had elections in Britain. We had elections in this country in 2010. It appears that [Sarkozy](#) is going to have another term. [Angela Merkel](#) and the Christian Democrats seem to be the only realistic government in Germany. In fact, if there is any political energy, it appears to be coming from the right, not from the left. And the right, of course, basically does believe in capitalism and is, in fact, if anything, opposed to government intervention.

To what do you attribute this conservative reaction to the fiscal crisis, for which, in fact, capitalism—as you

describe it—was responsible?

**TOMAS SEDLACEK:** That's a very good and a very difficult question.

Let's just first frame that. The European extreme right is much more left than American left. If Angela Merkel came with her radical right-wing reform of health care to America, I don't know what you would call her, if you were calling [Obama](#) a communist. If Obama came to Europe with his health care policy, the response would be "What do you mean, no insurance?" The most right-wing countries in Europe never even thought about not having mandatory insurance. This is not even a debate. I've never heard a debate in Europe about whether we should have mandatory or voluntary insurance when it comes to health. It's not even "What do you mean?" We in Europe are much more to the left.

But anyway, the direction is clear. I think in this we are both making a mistake, both the left and the right. There is an agreement on this fundamental issue.

Please let's just look the common wisdom, which you already see even in the newspapers. What caused the crisis in terms of fiscal policy? Too much consumption, over-consumption—the great party is over, blah, blah, blah. We've read this and heard this 10,000 times.

What is the solution to the problem that was induced by over-consumption? More consumption. This is what we want: "Government, please spend in our stead."

The economy is weak. We don't have enough energy to spend. This is the problem. We have artificial demand. Demand is something that doesn't want to be fulfilled. Demand wants to be multiplied. That is one of the mistakes I think we make.

At the moment you have something, you're not satisfied; you want more, like a child. And if we don't have enough money—

So this is the dictum. This is again, I think, the story that we have in our heads: it is consumption that is the engine of the economy, so we must consume. If you run out of money, go into debt. But consume. If you run out of debt possibility, then somebody else has to consume in your stead—okay, the government.

So we come to an ironic situation. The government is consuming, so that the economy is functional. That's my second point.

My third point is I don't think this is a crisis of capitalism, by the way. Capitalism had its problems, it has its problems, and it will have its problems, like any other system we've ever constructed, or ever will construct—like communism, like feudalism, like mercantilism, anything. Everything has glitches.

What I think we are in a crisis of, is growth capitalism. There's a huge difference. Nobody has really named it, so here I propose a label. This is not capitalism, what we believe in. It is growth capitalism.

This is where we are religiously disappointed, that the god of growth left us. What do we have to sacrifice? Okay, let's sacrifice government cuts, or let's sacrifice whatever—austerity measures.

It is growth capitalism—the fervent belief that it must grow at all costs—that is in crisis.

It grew for so long. It grew, and it grew. And it was beautiful, and nobody complained for a generation. One year, minus 3 percent—"How could that be? The gods must hate us. What did we do?"

So, it's growth capitalism. That crisis is correct, and it should be there; because how can we only—and I'm quoting, of course, the [Book of Job](#)—"How can we only take the good things from the Lord (in other words, today the market) our God, impersonal God?"

This is another thing, going back to the beginning of ethics. We feel that markets are value-free. In fact, the opposite is the truth: they dictate values. They say, "Water is more expensive or less expensive than Coke. Therefore, value of water is less or more, depending on the price. Wine is more expensive."

So there is this impersonal god, called market, that dictates values, a.k.a prices. How that god was born is in dispute, but usually the story in economics is that once upon a time individuals in free will constructed this god called the market. But the market dictates back. It tells you your value in terms of wage. It tells you the value.

This is the problem when we are addressing things that have no price, such as family, friendship. There we feel it hitting upon each other.

So what was my point? My point is it is growth capitalism, not capitalism per se, and we have to treat it such.

My last point was in terms of money, in terms of fiscal policy. It was too much consumption that led us into this situation; the solution is more consumption.

In terms of monetary policy, again let's think back to two years ago. What was the problem? Cheap money. Remember? Too much cheap money, too low interest rate. That was the problem that got us partially—not the main victim, but one of the victims that got us into the crisis.

What is the solution? Even more cheap money, and even lower interest rates. I mean, you can't have a negative interest rate. But, oh, do we wish we could give people money.

"Okay, do you want to take a loan? Okay, here's 2 percent on top of it. Instead of an interest rate, we give you disinterest rate or something, a negative interest rate. You get money if you consume." You see the irony of this.

My point is, this doesn't work. There is no way we can continue believing that it's consumption that is driving us forward.

And, by the way, it was an artificial level of growth. It was built by debt. It wasn't GDP. It was growth debt product. We are pulled by debt today. It is not the economy.

**QUESTION:** James Starkman.

How would you suggest that we ethically cushion the hard physics of [Adam Smith](#) and [Gordon Gekko](#)?

**TOMAS SEDLACEK:** I know this is stupid, and I know it's almost impossible, so forgive me. Here I would disagree with the question. I know this doesn't make sense.

I would not cushion it with artificial constructs to build around it, believing that this thing is this machine that is value-free. Absolutely, laws of physics apply there, and there is nothing you can do about it. No. Capitalism is not a divine system. I think it's the best system we have, and so is democracy the best system we have. But it is an anomaly.

From a historical perspective, tell me how many centuries did we have democracy in our American and European history? Tell me how many centuries did we have market capitalism, the way we believe in it today?

And, by the way, talking about the spontaneous market—the spontaneous market seems spontaneous only because there is an army and legion of clerks and bureaucrats that keep it alive. The only role for these bureaucrats is to look invisible. So, we should more appropriately talk about the invisible hand of a bureaucrat that's keeping the economy from monopolies, from blah, blah, blah, blah. This is the problem.

This is, I think, why it is so annoying when you meet one. Suddenly you see that it is not spontaneous, and we have stamps, red paper, red ink, and "blech." Lots of paperwork, lots of rules, and bureaucracy. That is annoying, when we bump into it. It's not just that it's annoying and time-consuming. No. It is sort of a psychological disappointment that this system doesn't run smoothly, and we need this army of invisible bureaucrats to support it. That's my second point.

My third point is that capitalism is a manmade system. But we are responsible for institutions that we govern. And, of course—and this I think is the trick—the home run of any ideology is to be invisible; in other words, it is to seem that there is no ideology.

Capitalism is an ideology. It's not a negative word. I don't mean it as a negative term. But it's a belief system, and it is our belief system; it is not an alien, dumped system from outer space.

So—and now I answer the question—no, stop cushioning it. You will need more and more state/government intervention, if you want to cushion it. I think the path we should go is to start to change the very heart of the system itself—and I believe it is changeable—to put into the system more fairness and consideration. So that it produces results that we can be proud of, not ashamed of, often.

**QUESTION:** Ron Berenbeim.

I want to go back to your point about consumption, about which you have made a sort of moral judgment. That moral judgment is one that probably many people here share, but it's a narrow view of the word "consumption."

You are suggesting that what we need is more and more consumption by the same people.

**TOMAS SEDLACEK:** No, I wasn't suggesting that.

**QUESTIONER:** I don't think that's what the debate is about. I think the debate is about trying to enfranchise more and more people who are being left out of the consumer economy. That raises all kinds of issues of what is the best kind of policy approach to getting more and more consumption into the economy. Let's hear your comment on that.

**TOMAS SEDLACEK:** It's the same point. All you're saying is, "We need more consumption," but you're saying, "from a different source." Fine. I'm saying this is not the solution.

That's a different problem. The distribution of wealth is a different problem that we could talk about.

But my point, and your point here, is we need to find new sources of consumption—that is what you're saying—from people who do not have money, let's say the poor. And we need to arm them with the means how to consume. Fine. This, I think, goes hand in hand with the mantra that is popular.

My contribution and point is that we have miraculous beliefs in the healing power of growth and consumption. We find consumption to be the answer to almost all problems of society and growth.

Take the Israeli-Palestine conflict: "Oh, the economy is going to solve it."

Take the problem of racism, which is more acute now in Europe. We are bribing people by growth, so that they don't become brownish. Because the fear is if we stop growing, there's going to be a social Armageddon; we're going to become nationalistic. This is an appropriate fear in Europe—not as much in America, but I'm only here for four or five days, so I can't really say.

But I fear the fear is more in rhetoric. In other words, the question is—not to be misunderstood, "growth is good," if it is. My question is: What happens if it doesn't grow? Should we force it to grow, and, if so, then how?

Right now the economy is in the downward cycle. The question is: What to do now? I think this is extremely healthy.

And, of course, philosophically, I must bear in mind all the people that lost their jobs and are struggling—but, philosophically and from the terms of politics, this is the best period ever. Why? Because we are asking these questions. Would we have had this session seven years ago? I don't think so. Would we have had all these books on rethinking capitalism and so forth seven years ago? I don't think so.

So what was our biggest weakness? Our strength. Because we were so God-like, we thought the system is perfect. The system didn't really change from 1995 to 2011. The system is still the same. Only now we are weak, even meek, and we ask ourselves: Okay, what's wrong in the system?

So, yes, if it grows naturally, then that's fine. But we shouldn't make growth our mantra.

So here we are trading GDP growth for stability, when it comes to debt. I think we change the mantra from max growth to max stability. So, if we grew at a little more moderate pace in the past, and invested the money into decreasing debt—in other words, increasing stability—we wouldn't have half the problems we have today.

I don't know whether I answered your question. Yes, sure, but it's a different question, social injustice. If you want to talk about social injustice, we can. But I was attacking the fervent belief that it is growth and consumption that will get us out of the problem caused by consumption. That was my point.

**QUESTION:** John Richardson.

I wanted to ask a question directed to the current level of political debate in this country when you see Republican candidates or Democrat candidates discussing things. If I oversimplify, and say that if you look at the 19th century and the early 20th century, the heyday of free enterprise in this country was conducted behind a tariff wall.

So the beginning of globalization is really when you began to realize Berlin and Tokyo were relatively few flying hours away. That was the Second World War. Some would say it was the finest hour of this country. But if it was the finest hour, it was the finest hour because the government ran everything, everybody had a job, taxes were high.

My question really is: Isn't the planned economy really a better way to do things?

**TOMAS SEDLACEK:** Very good. Can I take my jacket off? Because this is going to be difficult.

I don't think so. But I think here is a very precious point that you are making.

The question isn't really whether capitalism works or not. The question is: Where does it work and where does it collapse?

So, for example, there is a huge area in which it doesn't work, and that's human relationships. In the nanosphere below microsphere, between friends, between family, we're not paying each other money. This is the way societies were in the past. We didn't barter. We lived like a family—if you want, in a communist manner. So, in other words, everybody brought whatever he or she could, everybody according to his needs and everybody according to his possibilities.

This is how family functions. In fact, in a family we don't want to be efficient, when it comes to relations. We don't want to be exact. We don't want to be market, and we don't want to be mechanistic. And—a final point—we actually even don't want to be just. Let me give you a couple of examples to support this. Where shall I start?

Well, let's imagine, if I may take an example, that I invite you for a glass of wine. We go out and I ask you, "What would you like?"

You'll say, "I'd like to have a glass of nice red wine." I say, "Okay, fine, here's \$12.00." "What?" "It costs \$12.00. Give it to the waiter."

Why would you be insulted? Because we must pretend like money doesn't exist. This is why when you pay your bill, you have it nicely hidden, and there is always this ridiculous situation of who is going to pay.

And this is why we mark out the price tag from a gift. We all know roughly how much that playbox costs. But it is the exactness that is the problem.

On justice, how many times did you threaten your children "If you keep behaving like this, no gifts for Christmas?" How many of them kept behaving like that, and how many times did you actually not give them anything for Christmas?

So, different rules. These would not apply in the market—"If you keep selling me bad shoes, then I'm not going to buy them from you"—and there we are very fair.

But there is a human sphere—and I could give you 10,000 other examples—where we don't use money within the family. With friends, we don't use money. We actually go do extra rituals.

A good example is I give you a gift, and you say "Thank you," and I say "No, no, it's nothing." Why would I say that? I should say, "Yes, it cost me a lot of money, it cost me a lot of time, and you should be really grateful and next time give me something better." [Laughter]

Why do we go through these rituals? "Oh no, no, no, it was nothing." "No, but it's—." "Oh no, forget it, don't mention it." "Thank you"—"don't mention it." "What do you mean 'don't mention it?'" I just have a liability with you.

I opened your door—you should open the door. This is what economics books teach us. I open the door, because I expect the door to be opened to me next time. Well, this is nonsense. You wouldn't open doors to strangers in that case.

But anyway, we know this, and we've known this for a long time. And, by the way, [behavioral economics](#) is doing a great job of showing us the paradoxes.

I love this. Tell me if this is not the way that we teach our students. For two or three years, we teach them systems that make no sense at all, assumptions and conclusions that are out of this planet, a [Robinson Crusoe](#) sort of an economy. And then, after they survive, and they get properly indoctrinated and housetrained for the first three years, we show them the real life.

And that real life is full of paradoxes. Of course, that paradox doesn't seem paradoxical to anybody else but an economist, because we have been told for three years, "Human beings are rational, human beings calculate, human beings this and that." And then somebody comes up and says, "Oh, but in this experiment human beings

don't calculate"—"Oh, that's a paradox." But it is only a paradox because we have lived in this belief system for three years that it seems like that.

So anyway, behavioral economics is showing us that on a nano level market does not work—or maybe it could, but we don't want it to work. It is thinkable that my wife would pay me for carrying out the garbage, and I would pay her for smiles and washing the dishes or whatever it is that we do. This is thinkable. If I want my shirt to be ironed, I pay money on the market; I don't pay money in the family.

It would be also ridiculous. This is a wonderful example of *Predictably Irrational*, a book that I would also recommend, by [Dan Ariely](#), and he has many examples of that.

My contribution here is this is also true of the macro or the mega systems. In the huge system when it comes to sovereigns, sovereignty fails. Or for huge companies, I argue the economy doesn't work either. The economy works well in situations which are not important or life-threatening.

This is the answer to your question. This is why during war, where actually our lives are threatened, the economy doesn't work.

In other words, in the important areas of life such as health care—this is part of the debate—it is so important that we don't want the market to work there; we there want to be communist in a way. That's one way to read it. We want to insure. We want there to be solidarity. If I break my leg, I will not pay for it, but the system will.

The same situation happens in wars, and the same situation happens in the really important areas of life.

So here is a claim that I have, which is provocative: economics only works in the unimportant areas of life. Because look at Greece, look at what we're doing. We're forgiving their debts and everything. We are like a family again there.

**QUESTION:** Jim McClay.

You said that the market drives morality, in certain circumstances. You quoted the example of water costing more than Coke. In my country, New Zealand, which is the world's largest trader in milk, there is a common lament that milk costs more than Coke. People say, "That's bad, that's immoral."

Now, is that a case of the market driving the outcome, that milk costs more than Coke? Or is it a moral judgment that is being made externally, that milk shouldn't cost more than Coke?

**TOMAS SEDLACEK:** It's both. I come from a country where beer is cheaper than water, so I know what you're talking about.

**QUESTIONER:** That's not immoral.

**TOMAS SEDLACEK:** That I think is very moral. [Laughter]

But my point here is you can't really separate it. [Oscar Wilde](#) said that—and this is a slight paraphrase—an economist is a man who knows the price of everything and the value of nothing. This is it. Economists can say almost nothing about value.

I can only talk of price. The only situation price exists is in a situation of a market. So, for example, I don't think there is a market for this pen—I can make it. I definitely don't think there is a market for this leftover water. So I don't know the price of this water. I need a market to dictate, or to tell me the price.

Here we are ready to give our subjective opinion about the way we feel things should be valued, which is your question, and we subject ourselves to the dictate of price. So we often make the mistake that we equate price with value, and there is a huge difference between price and value.

**QUESTION:** Thank you. Arlette Laurent.

You mentioned interest rates. Could you give us your thoughts about interest rates and inflation?

**TOMAS SEDLACEK:** Let me start with interest rate and morality. This is the way we construct interest rate: Let's imagine I'm a bank, and you are Greece, or California, or whoever. So you come to me: "I need \$2 billion." What will I do? I will construct an interest rate based on the probability of what? Of your bankruptcy. This is the risk premium. The underlying archetype of an interest rate is the possibility of default. I construct everything around that.

The only thing that I care about when I give a loan is the probability that I get it back or not. I don't care about the value, really. Of course that's a part of it. But really the answer to the question is: Will I get my money back at a certain interest rate?

So let's say that you are Greece. This is the year 2007. I already have some issues. So I charge you 6 percent interest rate over two years. I do that. We make that deal.

I come to a third party, and I insure that investment. That was called credit default swap. In other words, I have lent money to Greece, and I want to insure it. And you say, "Okay, for 3 percent"—or whatever, 2 percent—"in case she defaults you will not lose your money. I will pay it for you as a sort of insurance." Fine, all right, good. It all sounds good.

We have technical analysis and billions of papers and studies. And we read in the newspapers all the credit default swaps went up by 20 percentage basis points. Okay.

But what happens in the situation where this thing called bankruptcy, around which the whole interest rate is calculated, actually materializes? The whole construct breaks down. This is what happened in Greece.

This is why I think, in the huge picture, economic justice—because we should be fair here, it was my stupidity to lend you money. I should have had all these beautiful mathematical models calculating the probability of you, and everybody else, not defaulting. I didn't. That was my mistake. Nobody forced me to lend you money. It was my way of wanting to make money, and my risk. And, isn't the very basic principle of capitalism that you should be responsible for the risks that you are taking?

So in this macro-sphere, I argue we have bankrupted the institution of bankruptcy. The institution of bankruptcy is bankrupt. We no longer allow companies to go bankrupt—Detroit and whatever. In other words, how can we pretend to keep lending when we know that bankruptcy, around which the whole interest rate is constructed, is impossible, that governments will always bail out? Nobody will trust you anymore.

We—in our European Constitution—had, black and white, no bailouts. This was black and white. Every country is responsible for its own finances—no bailout, black and white.

How do you think you can convince anyone now that "Okay, but next time we're really not giving any gifts to Greece, except on Christmas, holidays, and birthdays,"—and Iceland and Hungary, not to just zero in on Greece.

So it is like an airbag that always works wonderfully, except in a car crash. Because interest rate works fine, it's smooth, you can write papers, and you can report on the movements of interest rates and credit default swaps and whatnot, until there is a car crash. This whole thing, we take a rubber, an eraser, and we scratch it out, we forgive. Which is fine. But we have to have obviously different rules for the functioning of the meta than we have for the function of the market. That's a good answer.

But you wanted inflation. Is it good, or should I continue about inflation?

**VOICE:** Continue about inflation.

**TOMAS SEDLACEK:** Yes, okay. I will smuggle in the answer about inflation in the next question. So, who has a most unlikely question to be connected with inflation?

**QUESTION:** I'm just asking him to finish the question. You talked about him insuring your loan to Greece for the \$2 billion. What happens to that, when Greece goes bankrupt?

**TOMAS SEDLACEK:** Nothing—because I should be fine. Okay, I'll lose the money there. I don't care, because you're going to give it to me. Then, why do I come to the state to bail it out? None of these two games are actually functional. It is a pretense.

This is the thing where we need to move forward. I talked about interest rate being extremely value-laden in the past. It is value-laden still today, because we have to morally say, "Who do we save, who do we redeem, and who do we not redeem?"

By the way, the word "debt" in original Greek is the same word for "sin." It's also in Aramaic, and it's also in Latin, *demitte nobis debita nostra*—forgive us our debit cards, forgive us our debts. This is the way it worked.

And also in German. Those of you who speak German, still today in German the word for "debt" and "sin" are synonyms.

So, who do you save? This is a properly moral question. I will save who I will, and I will condemn who I will. God, in this case, needs to make a moral decision of who to save.

By the way, Christianity uses this terminology extremely strongly. The way it worked in the past was you took a loan, you couldn't pay it back, you became a debt slave. As a debt slave, you had two things to wait for:

- The year of a jubilee, which happened every 49 years, when debts were erased and original property was returned to the original owners of the land, the twelve tribes. This is, again, Old Testament. So you either had to wait for that, the year of jubilee, where you actually made a reset. In a way, we made a reset here too. We forgave debts, reset Greece.
- Or you had to wait for a redeemer, somebody who would come and redeem your debts. So you open the *Financial Times*: "Government is redeeming Detroit"—if we were in the New Testament times, we could read the *Financial Times* in a very biblical way. Just substitute the word "sin" for "debt." The Greek sin was so huge they were falling under the weight of their debt/sin. They could no longer carry it. They became slaves to it. Somebody had to come, somebody from outside, somebody more trustworthy, somebody stronger, had to come and redeem them—in other words, take the debt, put it on his own shoulder, and do away with it.

So Christianity uses this terminology extremely strongly. There is a huge section about that in the book. It's actually very interesting, because just to put together the words "debt" and "sin," again, shows you how—and those are synonyms; linguistically they are synonyms—how morality is inseparable from economics.

**QUESTION:** Carol Spomer.

So, if you could close your eyes and dream, what would the integrated body and soul of economy look like, and how do we get there?

**TOMAS SEDLACEK:** Okay, that's an easy question. [Laughter]

It took us 200 years to build the capitalism in the shape it is in today. By the way, I think if [Marx](#) lived today, he wouldn't have that much to say. But his point during the [Ford sort of capitalism](#), where you really—or what's the novel by [Charles Dickens](#)? It's the name of a boy.

**VOICE:** [Oliver Twist](#).

**TOMAS SEDLACEK:** Oliver Twist sort of capitalism. Of course, in this situation today, we would all be Marxists. We would say, "This is unfair. Please, you can't have children working in factories. This is immoral. You can't have people die out of things that the company produces. We need to change this."

And we have. So, today, whether you like it or not, we have incorporated a lot of Marxism. We have softened the economy.

Yes, of course a difficult question.

We need to stop pretending the interest rate is interest rate when it isn't—an example that I just gave. We need to stop pretending that price does not include morality, because every single purchase is a moral decision. If you buy coffee, you are buying more than just coffee; you are buying ideology.

Let's go back to the example of beer. We have wonderful beer. It's called Pilsner Urquell. I had a debate with the CEO of the Czech Pilsner Urquell. One bottle costs 30 crowns.

I asked him, "What's the value of that actual beer in it?"

He said, "Two crowns. The rest, 28, is everything else but beer."

So, we must understand when we are buying beer, we're not really buying beer; we're buying everything around it—the ideology, the research.

When you buy yoghurt, the actual yoghurt costs almost nothing. What is expensive is the thing around it, the superstructure that makes you feel that yoghurt is what you should buy.

This is not natural. This is something that is labored for. We need to acknowledge that price is not value-free. Price

is value-free in 6 percent, and the rest of that is some sort of ideology that we have. To give an example, I think once movies were constructed so as to look like real life. I think, today, we live real lives to look like a movie.

In other words, if you want to pull out a romantic dinner, you cannot do so without [Brad Pitt](#) sitting next to you or in you. You know, I'm going to be Brad Pitt tonight. It is impossible to do it without it. You simply have no choice. If you want a romantic something, you will probably think of a movie you saw, or a book you read, or a story.

The whole idea that romance exists is an ideology itself. And that it is important, because 300 years back: "What? Why candles? There is nothing else that sheds light. Why sunset? Why nice little birds singing in the open? This is normal."

This is a tall order, of course. I'm 34. I promise, by the age of 40, I'll come up with an answer. But this is a direction.

**JOANNE MYERS:** Thank you very much. It has been a fast ride.

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