



The Starry Heavens Above and the Moral Law Within: On the Flatness of Economics

Abbas Mirakhor¹

[LINK TO ABSTRACT](#)

Two things fill the mind with ever new and increasing admiration and awe... the starry heavens above me and the moral law within me.

—Immanuel Kant (1956/1788, 166)

In a piece for *BusinessWeek* in March 2009, Shoshana Zuboff argued that the financial crisis was driven by a sense of “remoteness and thoughtlessness, compounded by a widespread abrogation of individual moral judgment.” She found Hannah Arendt’s formulation of the “banality of evil” an apt characterization of those who perpetrated the financial crimes. The “self-centered business model” allowed them to operate “without the usual feelings of empathy that alerts us to the pain of others and define us as humans” (Zuboff 2009). Joseph Stiglitz, too, raged against the “moral depravity” of those who engaged in financial practices that led to the crisis.² Did they not “have any moral compunction?” he asked (Stiglitz 2010). The Financial Crisis Inquiry Commission (2011, xxii) identified “systemic breakdown in accountability and ethics” as one of six causes of the crisis.

Even before the crisis Richard Holloway (1990) asserted that the “unfettering of the market” in the two prior decades had removed traditional restraints on markets. That in turn had unleashed greedy, self-centered, and self-interested behavior at the very core of contemporary society. Widespread “crime and unfair

1. International Center for Education in Islamic Finance, 50050 Kuala Lumpur, Malaysia. Assistance of Alaa Alabed is gratefully acknowledged.

2. There is a general belief that only a very few predicted the crisis. Tobin (1984) warned of the emergence of a “paper economy,” and Amartya Sen of the potential adverse consequences and “harm” that the contemporary financial “behavior may cause to the public at large” (Sen 1991, 62). See also Dobson (1993); Shiller (2005); Argandoña (2012).

business practices committed at the kitchen table, on the settee and from desks and call centers, at cash points, in the supermarkets and restaurants, and in interaction with builders and trades people...by people who think themselves as respectable citizens” (Karstedt and Farrall 2007). Erosion in morality is not limited to market anomie. It is observed also in societies where the market does not have a dominant role (see Akinbo 2009).

There is a sense of moral panic regarding systemic assault upon human dignity, trust, contracts, and property. The latter constitute fundamental elements of the institutional infrastructure of societies, gluing social solidarity. How much responsibility and blame can be laid at the door of economics? Insofar as the discipline has detached itself from ethics to generate a “self-centered business model” (Zuboff 2009), with its “One-Dimensional”³ man having reigned supreme across the world and across cultures, its “flatness” (Klein 2014) is the least intense of the charges against economics. While the call for economics to include ethical considerations has been voiced for decades (Sen 1987; see also Block, Brennan, and Elzinga 1985), economics continues to “be practiced in an ethical and moral vacuum” (Sfeir-Younis 2001).

What can religious or quasi-religious concepts and ideas do to enrich economics? They can energize the emergence of economics as the moral science its classical ancestors intended. At a minimum, the future generations of economists and financial practitioners would become alert that motives of self-love or self-interest need not exclude a feeling of empathy for others. Nor should serving self-interest allow an assault upon human dignity and personhood of others. Introduction into economics of ideas shared by all religions regarding the unity of mankind as well as crucial concepts of the right of every human to personhood, dignity, and freedom granted by the Creator would go a long way to unflatten conscience and consciousness.

In his introduction to this symposium, Daniel Klein (2014, 98) suggests that the Max U approach flattens “conscience to nothing.” In my view, professional economics produces a professional policy adviser who recommends, no doubt on efficiency grounds, that industrial countries should dump their nuclear waste in the developing world. Judging by the banality with which the profession reacted (see Heyne 2008, 2), the advice was “terribly and terrifyingly normal” (Zuboff 2009). Jungian analysis should not be needed to suggest that Adam Smith’s conception of universal benevolence requires a universal consciousness. Economics, it seems, flattens consciousness in all its dimensions except one: that of an egoist.⁴

3. Borrowing from the title of the book by Herbert Marcuse (1964).

4. For challenges facing economics and economic theory see Fullbrook (2003); see also Lawson (1997) and Rubinstein (2006).

The view held by many inside and outside the profession is that the problem with economics is its model of man; the Max U approach robs the discipline of its ‘grand vision.’ A number of Adam Smith scholars see in the totality of his work a unified grand design (Oncken 1897; Evensky 1993; 2005; 2011; Otteson 2002; Khalil 2006; Kennedy 2008; Rose 2011).⁵ *The Theory of Moral Sentiments* and *Lectures on Jurisprudence* provide the moral rules, the institutional scaffolding⁶ within which the economy described by *The Wealth of Nations* is embedded.⁷ It is compliance with the rules prescribed by the “Author of Nature” that assures balance in the economy.

Recoupling the economy with the ideas in *The Theory of Moral Sentiments* could help cure economics of its flatness. Research in various areas such as experimental, behavioral, cognitive, and evolutionary economics, as well as neuroeconomics, has produced evidence of the need to reform the “economic man” (see, e.g., Wilson 1998; Gintis et al. 2005; Altman 2006; Harman 2010; Bowles and Gintis 2011; V. Smith 2012; Gowdy et al. 2013; V. Smith and Wilson 2014). It is also heartening that the inclusion of social capital, alongside labor, physical capital, and human capital, is no longer questioned. One wonders how long it will take before “moral capital” is also introduced as another element of the production function.

Religions have much to contribute to righting the wrongs of economics by making available coherent and logically consistent alternative postulates and models.⁸ In my own tradition, Islam, research has begun to define the grand vision within which the economy is embedded. Similar to the conjecture about Adam Smith’s unified theory, I believe that the Qur’an provides an explicit vision of an economy embedded in prescribed rules of behavior. Compliance with these rules assures sustainable development and growth (Mirakhor and Askari 2010; Iqbal and Mirakhor 2013).⁹

5. Alvey (1999) traces the history of economics as a moral science down to Alfred Marshall. John Maynard Keynes, in a letter to Roy Harrod in 1938, wrote “I...want to emphasize strongly the point about economics being a moral science” (Keynes 1973, 300).

6. “Scaffolding” is used by Douglass North (1990) to signify the institutional infrastructure (rules of behavior and their enforcement characteristics) of an economy.

7. For an analysis of *Lectures on Jurisprudence* see MacCormick (1981).

8. Kenneth Arrow once asked: “Under what circumstances is it reasonable to expect a business firm to refrain from maximizing its profits because it will hurt others by doing so? What institutions can we expect to serve the function not merely of limiting profits but of limiting them in just those ways that will avoid harm to others? Is it reasonable to expect that ethical codes will arise or be created?” (Arrow 1973, 303). Religions have an additional challenge of explaining the contrary behavior of their followers—the famous problem of akrasia with which philosophers since Aristotle have had to grapple (see Kuran 1995).

9. The rules were operationalized by the Messenger during his lifetime. While the paucity of accurate historical accounts do not permit full analysis of the economic policies of the Messenger, there is enough information to provide an understanding of how the envisioned economy, and the market embedded in it, work.

Many of the concepts and ideas in Islam would enrich economics. These include its conception of property rights, a conception that empowers all humans to access Allah-created resources. Its property-rights rules provide a legislative basis for redistributive measures, as the redemption of the rights of the less able to income and wealth possessed by the more able. The claim of the less able remains valid throughout the production and exchange process and must be redeemed. Property-right rules as defined by Islam prohibit abuse, waste, and wanton destruction of resources. The environmental implications are clear.

Sharing is another major Islamic principle. It prohibits interest-based debt contracts (risk transfer) in favor of risk sharing. Such prohibition serves one of the desiderata of Islam: the unity of mankind as a corollary of the Unity of the Creator. Sharing the risks of life brings people together and leads to social solidarity (Askari et al. 2012). It is worth noting that Kenneth Arrow's theory of risk bearing (Arrow 1971) is essentially a theory of risk sharing in that it requires that the risks of the economy are allocated among participants in accordance with their "respective degree of risk tolerance" (Hellwig 1998, 330). In Arrow's model all assets are state contingent (no predetermined, fixed payoffs).¹⁰ Risk sharing is an idea that could relieve human societies of the heavy burden of debt.

In the Islamic vision, the market occupies an important but subsidiary function in that participants have to internalize the moral rules of behavior before entering the market. Additional rules govern market operations, including free entry and exit, full disclosure of information, and transparency. Rules provide remedies for such problems as annulment of contracts in case of cheating, shortchanging through weights and measures, and asymmetric information. These rules embed the market in the economy and the economy in the society.

Religious ideas can help enrich economics. Discussion of religious and ethical ideas, and stock-taking among economists of all shades of belief, would be helpful. Post-crisis circumstances have created opportunity for more productive discussions than in the past.¹¹ If nothing else, inclusion in the profession of some form of Kant's Categorical Imperative (Laffont 1975), or the Golden Rule, would be helpful. At least economists could agree to do no harm.

In the longer term, one shares hope with Albert Hirschman that it may be "possible to visualize a kind of social science that would be very different from the one most of us have been practicing: a moral-social science where moral con-

10. In the late 1960s and early 1970s was developed the foundation of not only equity derivatives but also debt derivatives. A case could be made that the latter innovation, accomplished in a short span of time, set the course of finance toward the crisis. Interestingly, in 1983 a bright graduate student argued the impossibility of the presence of a fixed, pre-determined, positive rate of interest in general equilibrium models (Cowen 1983).

11. For example, compare Block, Brennan, and Elzinga (1985) with Williams and Elliott (2010).

siderations are not repressed or kept apart, but are systematically commingled with analytic argument...where moral considerations need no longer be smuggled in surreptitiously, nor expressed unconsciously, but are displayed openly and disarmingly” (Hirschman 1981, 305-306).

References

- Akinbo, Theophilus O.** 2009. Understanding Economic and Financial Crimes. Presentation to the EFCC/NYSC Integrity Club (Nigeria), March 14.
- Altman, Morris,** ed. 2006. *Handbook of Contemporary Behavioral Economics: Foundations and Developments*. New York: M. E. Sharpe.
- Alvey, James E.** 1999. A Short History of Economics as a Moral Science. *Journal of Markets & Morality* 2(1): 53-73. [Link](#)
- Argandoña, Antonio.** 2012. Three Ethical Dimensions of the Financial Crisis. Working Paper WP-944. IESE Business School, University of Navarra (Barcelona). [Link](#)
- Arrow, Kenneth J.** 1971. *Essays in the Theory of Risk-Bearing*. Amsterdam: North-Holland.
- Arrow, Kenneth J.** 1973. Social Responsibility and Economic Efficiency. *Public Policy* 21: 303-318.
- Askari, Hossein, Zamir Iqbal, Nouredine Krichene, and Abbas Mirakhor.** 2012. *Risk Sharing in Finance: The Islamic Finance Alternative*. Singapore: Wiley.
- Block, Walter, Geoffrey Brennan, and Kenneth Elzinga,** eds. 1985. *Morality of the Market: Religious and Economic Perspectives*. Vancouver: Fraser Institute.
- Bowles, Samuel, and Herbert Gintis.** 2011. *A Cooperative Species: Human Reciprocity and Its Evolution*. Princeton, N.J.: Princeton University Press.
- Cowen, Tyler.** 1983. The Rate of Return in General Equilibrium: A Critique. *Journal of Post Keynesian Economics* 5(4): 608-617.
- Dobson, John.** 1993. The Role of Ethics in Finance. *Financial Analysts Journal* 49(6): 57-61.
- Evensky, Jerry.** 1993. Ethics and the Invisible Hand. *Journal of Economic Perspectives* 7(2): 197-205.
- Evensky, Jerry.** 2005. *Adam Smith's Moral Philosophy*. Cambridge, UK: Cambridge University Press.
- Evensky, Jerry.** 2011. Adam Smith's Essentials: On Trust, Faith, and Free Markets. *Journal of the History of Economic Thought* 133(2): 249-268.
- Financial Crisis Inquiry Commission.** 2011. *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic*

- Crisis in the United States*. Washington, D.C.: U.S. Government Printing Office. [Link](#)
- Fullbrook, Edward**, ed. 2003. *The Crisis in Economics*. London: Routledge.
- Gintis, Herbert, Samuel Bowles, Robert Boyd, and Ernst Fehr**, eds. 2005. *Moral Sentiments and Material Interests: The Foundations of Cooperation in Economic Life*. Cambridge, Mass.: MIT Press.
- Gowdy, John M., Denise E. Dollimore, David Sloan Wilson, and Ulrich Witt**. 2013. Economic Cosmology and the Evolutionary Challenge. *Journal of Economic Behavior & Organization* 90(Supp.): S11-S20.
- Harman, Oren**. 2010. *The Price of Altruism: George Price and the Search for the Origins of Kindness*. New York: Norton.
- Hellwig, Martin**. 1998. Banks, Markets, and the Allocation of Risks in an Economy. *Journal of Institutional and Theoretical Economics* 154(1): 328-345.
- Heyne, Paul T.** 2008. "Are Economists Basically Immoral?" and Other Essays on Economics, Ethics, and Religion, eds. Geoffrey Brennan and A. M. C. Waterman. Indianapolis: Liberty Fund. [Link](#)
- Hirschman, Albert O.** 1981. Morality and the Social Sciences: A Durable Tension. In *Essays in Trespassing: Economics to Politics and Beyond*, 294-306. New York: Cambridge University Press.
- Holloway, Richard**. 1999. *Godless Morality: Keeping Religion Out of Ethics*. Edinburgh: Canongate Books.
- Iqbal, Zamir, and Abbas Mirakhor**, eds. 2013. *Economic Development and Islamic Finance*. Washington, D.C.: World Bank.
- Kant, Immanuel**. 1956 [1788]. *Critique of Practical Reason*, trans. Lewis White Beck. Indianapolis: Bobbs-Merrill.
- Karstedt, Susanne, and Stephen Farrall**. 2007. Law-Abiding Majority? The Everyday Crimes of the Middle Classes. Centre for Crime and Justice Studies (London). [Link](#)
- Kennedy, Gavin**. 2008. *Adam Smith: A Moral Philosopher and His Political Economy*. Basingstoke, UK: Palgrave Macmillan.
- Keynes, John Maynard**. 1973. *The General Theory and After: Collected Writings of John Maynard Keynes*, vol. 14. London: Macmillan.
- Khalil, Elias L.** 2006. Introduction: Smith the Hedgehog. *Adam Smith Review* 2: 3-20.
- Klein, Daniel B.** 2014. Does Economics Need an Infusion of Religious or Quasi-Religious Formulations? A Symposium Prologue. *Econ Journal Watch* 11(2): 97-105. [Link](#)
- Kuran, Timur**. 1995. *Private Truths, Public Lies: The Social Consequences of Preference Falsification*. Cambridge, Mass.: Harvard University Press.

- Laffont, Jean-Jacques.** 1975. Macroeconomic Constraints, Economic Efficiency and Ethics: an Introduction to Kantian Economics. *Economica* 42(168): 430-437.
- Lawson, Tony.** 1997. *Economics and Reality*. London: Routledge.
- MacCormick, Neil.** 1981. Adam Smith on Law. *Valparaiso University Law Review* 15(2): 243-263.
- Marcuse, Herbert.** 1964. *One-Dimensional Man*. Boston: Beacon Press.
- Mirakhor, Abbas, and Hossein Askari.** 2010. *Islam and the Path to Human and Economic Development*. Basingstoke, UK: Palgrave Macmillan.
- North, Douglass.** 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge, UK: Cambridge University Press.
- Oncken, August.** 1897. The Consistency of Adam Smith. *Economic Journal* 7(27): 443-450.
- Otteson, James R.** 2002. *Adam Smith's Marketplace of Life*. Cambridge, UK: Cambridge University Press.
- Rose, David C.** 2011. *The Moral Foundation of Economic Behavior*. Oxford: Oxford University Press.
- Rubinstein, Ariel.** 2006. Dilemmas of an Economic Theorist. *Econometrica* 74(4): 865-883.
- Sen, Amartya K.** 1987. *On Ethics and Economics*. Oxford: Basil Blackwell.
- Sen, Amartya K.** 1991. *Money and Value: On the Ethics and Economics of Finance*. Rome: Edizioni dell'Elefante. [Link](#)
- Sfeir-Younis, Alfredo.** 2001. Reconciling Economics and Spirituality. *Spirituality & Reality: New Perspectives on Global Issues* (Friends for the New Civilization), Fall-Winter. [Link](#)
- Shiller, Robert J.** 2005. How Wall Street Learns to Look the Other Way. *New York Times*, February 8. [Link](#)
- Smith, Adam.** 1976 [1776]. *An Inquiry into the Nature and Causes of the Wealth of Nations*, eds. R. H. Campbell and A. S. Skinner. Oxford: Oxford University Press.
- Smith, Adam.** 1976 [1790]. *The Theory of Moral Sentiments*, eds. D. D. Raphael and A. L. Macfie. Oxford: Oxford University Press.
- Smith, Adam.** 1978. *Lectures on Jurisprudence*, eds. R. L. Meek, D. D. Raphael, and P. G. Stein. Oxford: Oxford University Press.
- Smith, Vernon L.** 2012. Adam Smith on Humanomic Behavior. *Journal of Behavioral Finance & Economics* 2(1): 1-20.
- Smith, Vernon L., and Bart J. Wilson.** 2014. Fair and Impartial Spectators in Experimental Economic Behavior. *Review of Behavioral Economics* 1(1-2): 1-26.
- Stiglitz, Joseph E.** 2010. Moral Bankruptcy. *Mother Jones*, Jan.-Feb. [Link](#)

- Tobin, James.** 1984. On the Efficiency of the Financial System. *Lloyds Bank Review* 153: 1-15.
- Williams, Rowan, and Larry Elliott,** eds. 2010. *Crisis and Recovery: Ethics, Economics, and Justice*. Basingstoke, UK: Palgrave Macmillan.
- Wilson, Edward O.** 1998. The Biological Basis of Morality. *The Atlantic*, April. [Link](#)
- Zuboff, Shoshana.** 2009. Wall Street's Economic Crimes Against Humanity. *BusinessWeek*, March 20. [Link](#)

About the Author



Abbas Mirakhor received his Ph.D. from Kansas State University in 1968. He taught at various universities until 1984, when he joined the Research Department of the International Monetary Fund. In 1990 he was elected to the Executive Board of the IMF where he served until retirement in 2008. Since 2010, he has been the First Holder of the Chair of Islamic Finance at the International Center for Education in Islamic Finance (INCEIF). His email address is abbas@mirakhor.com.

[Go to Archive of Economics in Practice section](#)
[Go to May 2014 issue](#)



Discuss this article at JournalTalk:
<http://journaltalk.net/articles/5832/>

"The Starry Heavens Above and the Moral Law Within: On the Flatness of Economics," Econ Journal Watch, Econ Journal Watch, vol. 11(2), pages 186-193, May. Handle: RePEc:ejw:journal:v:11:y:2014:i:2:p:186-193.Â "The Moral Foundation of Economic Behavior," OUP Catalogue, Oxford University Press, number 9780199360598. Rose, David C., 2011.Â If you know of missing items citing this one, you can help us creating those links by adding the relevant references in the same way as above, for each referring item. If you are a registered author of this item, you may also want to check the "citations" tab in your RePEc Author Service profile, as there may be some citations waiting for confirmation. "Two things," said Kant, "fill the soul with awe and wonder: the starry heaven above, and the moral law within." How many of us have felt this amazement without expressing it! Approach man from a material point of view, and he is utterly insignificant; but view him from a spiritual point of view, and how wonderful is he! That strange faculty within him which witnesses to a law above himself, which speaks to him of the right even when he is yielding to the wrong, which enables him to hold communion with infinite perfection, which gives meaning to such words as "trust,&q