

# MPRA

Munich Personal RePEc Archive

## **Economic theory and social justice**

Joseph Johnson

Villanova University

12. October 2006

Online at <http://mpra.ub.uni-muenchen.de/1243/>

MPRA Paper No. 1243, posted 22. December 2006

## Economic theory and social justice

Joseph F. Johnson

*Address for correspondence:* Mathematics Dept., Eugenio María de Hostos Community College, CUNY, 500 Grand Concourse Boulevard, Bronx, NY 10451, USA; email: jjohnson@euclid.unh.edu

Is justice individualistic or both individualistic and social? Opposite views on this question include von Hayek, who said that ‘social justice’ was an oxymoron, and the late Holy Father who, in *Sollicitudo Rei Socialis* said that some socio-economic institutions can have ‘structures of sin’ in their architectures. The Old Testament prophets have been interpreted either way! Using results from the Capital Controversy in economic theory, Sen’s work on famines, and the Parsonian theory of the institution, we show that the ‘social’-justice dimension of an individual act is where its justice is unintelligible in merely individualistic terms, but requires institutional analysis.

*Key words:* Social justice, Institution, Sociological reconstruction of economics, Capital Controversy, Old Testament prophets

*JEL classifications:* A13 B52 D63 P48

### 1. The Old Testament prophets

The Old Testament prophets have been a major influence on Western civilisation and now on the Third World too. It has always been understood that, among other things which do not concern us here, they spoke about the justice of society, a whole nation, and finally, explicitly in Jeremiah, condemned the nation to slavery and dispersal for its injustice. There has been a lack of understanding of the details of their message—many words are corrupt and references indecipherable. But the main lines have been clear: they taught that an action could be legal but unjust, that the rulers (at least) had a responsibility to enact just laws instead of unjust ones, and that legal means could be used to defraud the poor of what remained their rights in spite of all laws to the contrary.

#### *1.1 Archaeological light on the prophets’ message*

There has until recently been no consensus on whether the prophets spoke about a concept of *social justice*, or collective responsibility, or only individualistic injustice.

The traditional interpretation by moralists and theologians of this has been fairly legalistic. But alongside this view, there has always been another more populist current: the prophets were standing up to the powerful and wealthy who were oppressing the poor, bringing about what the prophets poetically referred to as ‘the ruin of Joseph,’ by a combination of legal but unjust measures and the usual concomitants of forgery, bribed perjury, confusion about land titles, and breaking the laws of release and redemption. Even atheists like Bertrand Russell and communists like Percy Shelley have taken inspiration from this, as did the English revolutionaries and populists through the centuries and Third World base communities today.

But on what evidence will we decide the question? Fortunately our understanding of the socio-economic situation in which prophets such as Micah, Amos, and Jeremiah intervened, has increased through archaeological research (Weinfeld, 1995). Our understanding of their allusions and references is much more specific than it was a thousand years ago. Philological research has shown that some phrases which used to be interpreted literally or metaphorically, are actual technical legal phrases whose exact meaning is now known.

For example, what is usually translated as ‘mercy and justice’ means the king’s proclamation of amnesty, freedom for debt-slaves, and remission of debts and redistribution of land in the direction of greater equality (return of forfeited collateral for mortgage debts) on his accession to the throne. This throws new light on Micah’s injunction, ‘What does the Lord require of you but to do justice, and to love mercy (kindness), and to walk humbly with your God?’ Far from being a piously vague wish, it is a programmatic demand.

So this divergence of interpretations of the prophets outlines a philosophical, social,

and economic theme which is the topic for our investigation. Is justice a legalistic concept or a substantive (sociological or absolute) concept? Is justice purely individualistic or is there such a thing as social justice? Was the economics of the prophets, their condemnation of usury and advocacy of periodic return of collateral etc., faulty? Does it still apply? What should we say about social justice now? If there is such a thing as social justice, does it entail collective responsibility and contradict individual responsibility or not? Is there any way short of an axiomatic radical egalitarianism or Christianity to reach definite conclusions about the social injustice of some institutions?

Perhaps the axiom of egalitarianism is true, but it is not proved yet. A-historical attempts to analyse and define justice have generally remained mere assertions and ideologies, and yet one more seems superfluous. But putting together our three ingredients results in more than the sum of the parts: and we can, for perhaps the first time, formulate a definite and general criterion of social justice. ('Comparable Worth.') But to begin with, we first delimit the 'social' distinction between social justice and justice, classically individualistically conceived.

There is a separate category of social justice that does not involve the notion of collective responsibility. It leaves individual responsibility intact. Why isn't it reducible to individualistic justice?

Let's start with the prophets.

Israel from the period of the Judges until the monarchy had been more egalitarian and self-sufficient. The Philistines' superior military technology made the development of a professional military caste, a feudal class, with a centralised leadership, the king and

his court, necessary for independence as a nation. But it was the start of a veritable social revolution. Army captains were given landed estates as absentee owners and the combination of processes familiar to us today from recent Third World history created a sharp increase in the inequality of society. Enserfment and debt peonage grew. Cash crops for export, grown by hired hands, displaced free peasant smallholdings. The land was relatively depopulated, cities grew, but slum sections of cities, a novelty, grew up, as archaeological evidence proves.

The Deuteronomist was, in hindsight, severely negative about this. The original prophets were probably ambivalent about the institution of the monarchy: independence was a plus (especially for ethno-cultic reasons) but the impoverishment of whole classes of people was a minus. Jeremiah eventually put the dispossession of a debtor of his family farm (even though in legal enforcement of a mortgage contract freely and fairly entered into), onto the short list of crimes which merited Israel's total destruction.

This social revolution was primarily socio-economic in nature. But the socio-economic institutions were ancient ones: some seeming modern similarities are deceptive. For example, the notion of law was different. Ever since Rome, the Western idea of law has been that of a fixed code which the judge simply applies (with the interpretation necessary for the task at hand). In the Ancient Near East in general, and Ancient Israel in particular, there was no such set of legal rules. The village elders met at the gate and decided cases on a case-by-case basis, according to their society's ideals, of course. Law codes as then written were more like a hortatory utopian literary genre than something binding on a judge. Bearing this in mind, what sounds to our ears like legalism is actually a utopian

idealism, and the considerations which used to make some think that large parts of the Mosaic code were quite late are refuted: equally idealistic law codes existed in the Ancient Near East a thousand years before the prophets.

A whole generation of scholarship, summarised by Prof. Moshe Weinfeld of Hebrew University, has shown direct parallels throughout the Ancient Near East's psalms, idealised law codes, and messianic prophecies. (The verb) 'judge' even means rather 'save' or 'rescue' or 'intervene in favour of' rather than 'render correct procedural legal rulings.' Zechariah 7:vii, ix (viii is an interpolation) go 'render true judgements, show kindness and mercy each to his brother, do not oppress the widow, the fatherless, the sojourner, or the poor.' The parallelism show that 'judge' means the same as mercy, to rescue from oppression. Many other passages in the Psalms and prophets have Mesopotamian and Babylonian, Ugaritic and Hellenistic parallels. Psalm 146:vii 'He does justice for the oppressed, he gives bread to the hungry.' The verse-poetic parallelism makes more sense if we see 'judge' as meaning 'save or rescue.'

As Professor Weinfeld concludes about the Hebrew hendiadys, *mspt tsdqh* (usually translated misleadingly and over-literally as 'justice and righteousness'), 'the concept refers primarily to the improvement of the conditions of the poor.' (p. 35) 'The term implicitly refers to kindness and mercy as well . . . and the word *mspt* in this word-pair should not be understood in the juridical sense.' Indeed, its original Ugaritic meaning was connected with administration, rather than judiciating, and only later did it acquire a specifically juridical sense as well (p. 40). Seeligmann, an earlier linguist, also saw that the original meaning of *spt* was rescue.

Justice and righteousness is a synonym for mercy and kindness, and only later did the meaning of mercy and kindness dwindle away into the modern connotations of philanthropy and charity. Once one is aware of this linguistic history, many parallelisms become more intelligible, and the pattern they exhibit becomes significant instead of vapoury: Ps 33:v, 89:xv; Jer 9:xxiii; Hos 2:xxi, 12:vii; Mic 6:viii.

In Proverbs 20:xxviii a throne is said to be maintained with *ḥsd*, kindness, and in proverbs 25:v (and also 16:xii) with righteousness: *tsdq*—showing they are, in origin, synonyms. Too, the Mesopotamian cognates *kittum misarum* clearly has the meaning ‘the establishment of social equity, i.e., improving the status of the poor and the weak in society through a series of regulations which prevent oppression.’ The Rosetta Stone is a proclamation of amnesty, debt relief, and forgiveness of tax arrears.

The regulations in Israel which would have slowed or interfered with the social revolution were the Sabbath year and Jubilee year regulations—parallel regulations are attested to in Mesopotamia long before Moses. But this violates the individual freedom to contract. The prohibition on usury and land accumulation (except in cities and to foreigners=merchants) also has been a theme of the prophets.

Were the prophets romanticising the pastoral economy and being reactionaries against progress? Adam Smith deliberately attacked them on both points.

The answer is to see them as making a critique of institutions, not of justice or laws legalistically or individualistically defined.

### *1.2 Sociological light on the same*

I want to argue that the intention of the prophets was to criticise and condemn institutions.

The Holy Father's idea of structures of sin can be found in an incoherent form in the prophets. But to see it there we need a passing acquaintance with the fundamentals of modern sociological theory: what is an institution? Although many details in this are contentious, we only need the basic outline, which is practically a consensus by now of American theoretical sociologists and is based on the parts of the work of Talcott Parsons, Neil Smelser, and Mark Gould which are not seriously disputed.

When we understand the modern theory of an institution, it sheds new light on what the prophets were saying and makes larger patterns apparent which were unintelligible previously. (For example, the waffling they exhibit on individual responsibility versus collective responsibility.) It allows us to define precisely what we mean by social.

The sociological point of view is opposed to the legalistic point of view, and is a valuable supplement to the economist's point of view or the moralist's point of view: To anticipate, only individuals exist and act, BUT some patterns in their actions are unintelligible in individualistic terms alone. 'Social' is an adjective we use when that happens.

The sociological point of view looks at what people are actually doing and how they actually classify and evaluate their actions in terms of expectations or 'folk-morality', rather than how they may be legally classified. For example, legally, our Constitution says who is and who is not 'part of the government.' But sociology looks to the *substance* of governing. Anyone performing governing functions is part of the sociologically defined institutions of government, of the 'polity,' to use the technical term. Bank loan officers and bond investors are exercising the functions of government because they direct the flow

of the allocation of the resources of society to some projects and away from others. (This is the highest layer in the cybernetic hierarchy: the function of goal-attainment, and is the function of the polity.)

The abstract definition of an institution is that it is an interlocking complex of roles, expectations, and sanctions (norms) which is institutionalised in a particular society. A role is like a script but is more flexible, certainly much more flexible than a rule. Husband is a role, so is doctor, patient, employer, employee, debtor, creditor, teacher, student, peon, contractor, and so on. These roles do not envelop the whole person but when the person is acting within the role, with another person in a corresponding role, there is a restriction on what they will do. Not as restrictive as a theatrical script, but restrictive in the beneficial sense of reducing the number of conscious choices they have to make each second. Example of doctor and patient. Lecturing versus conversing. There is a structure of mutual expectations and sanctions—both rewards and negative sanctions.

An institution, such as medicine, is a complex of interacting roles which are institutionalised in the sense that enough of the actors have *internalised*, accept as *legitimate*, enough of their roles so that the interaction functions effectively: the rewards which are available for distribution are enough for the purpose, so are the punishments. These rewards may be partly material, from the economic aspect of society, and partly affectional or psychological. The roles aren't institutionalised unless their interlocking complex fits into the larger society, where other institutions produce the rewards and punishments for distribution, etc. This is mostly about stable situations.

Of course institutions change, some dwindle and disappear. Marriage today is very

different than sixty years ago. Probably because of the decline in real wages: pressure from other institutions meant the old roles would no longer meet people's needs etc. Such strain generates deviance on the part of individuals but also constructive change on the part of institutions. Employment has changed.

An institution, or a role for that matter, is merely an analytical category *we* use to analyse patterns of individual behaviour. If we use these categories we see more patterns than if we don't: behavioural regularities which were unintelligible without them become intelligible. Like a philologist's discovery of the 'meaning' of a word, the sociological categories help us see the meaning of an individual action.

In Ancient Israel or other ancient societies the types of contracts which were recognised as valid, i.e., institutionalised, were very few and very rigid. But one of them, usury or mortgage, was vastly different than today even if the legalities overlap quite a bit. Legally or philosophically, it looks like a simple contract, a free relationship entered into by two equal individuals: the local village magnate, moneylender, usually with a band of thugs at his disposal, enters into an equal bargain with a small freeholder who due to a bad harvest has to borrow at 200% or 1000% in order to make it to the next harvest. Collateral is the land, wife, and children. The real object on the part of the magnate is to get hold of the land—he hopes for foreclosure. Upon failure to repay, either the peasants will be evacuated or allowed to stay on as debt-peons—a kind of serfdom allowed by suffrance of the landlord but not legally recognised.

In the abstract legal point of view, almost all of this, except the slavery part, is formally the same as modern mortgages. But it is a different institution from the sociological point

of view because of the difference in roles. Legalism does not take cognisance of this and so cannot see a pattern in ‘the ruin of Joseph’ which the prophets saw.

Two mortgage contracts can be identical legally but belong to two different institutions. A commercial lender and a powerful investor have different roles than a peasant freeholder and the local village moneybags. Therefore the contracts belong to different institutions. This enables us to filter out the ‘noise’ of coalescing two different phenomena under the same rubric, and enables us to see that the social revolution under the monarchy, just as globalisation under the aegis of the International Monetary Fund today, form one pattern, because of the power relations affecting the roles, while the relation between bond investors and corporate borrowers is entirely different. The former was caused by an institution the prophets called usury, while the second needs a modern moral analysis, and has to be kept separate. In particular, attempts to argue *via a reductio ad absurdum* against the prophets’ critique, by pointing to the folly of applying it to the relations in the modern market between bond investors and corporate borrowers, must be seen as a straw man. Hence they fail to shelter the globalisation policies from the prophetic denunciation of the social injustice of the usurious developments under the monarchy.

The prophets are *apparently* inconsistent on this issue of individual responsibility and collective responsibility. I claim this is evidence of the intent to commit an institutional critique.

The institutional interpretation of the prophets solves various seeming contradictions which occur in the same person’s speech. Jeremiah says all have sinned, yet he later points out that he has never been guilty. In fact Jeremiah preached a defeatist policy because he

saw in advance what would in fact happen after defeat: the urban elite and exploiters were enslaved or exiled and the occupiers redistributed the land to the poor and needy Israelites, who were thus better off. He stayed behind with the poor. So after all the prophecies of universal punishment and destruction, we see him perfectly aware that the poor would be rewarded in the aftermath of defeat and the punishment would fall differentially, primarily on the leaders of society who had failed to do *tsdq* and *hsd*.

DEFINITION 1: Social justice is when the justice or injustice of an individual's act is unintelligible except by means of an institutional analysis, taking economics into account as well.

Institutions do not really act or sin, only individuals do. But the injustice of an individual's individual action might depend on the way it interacts with the existing institutions, including economic institutions.

Institutions are created by individual acts. They require routine maintenance: applying sanctions to people who obey the norms or violate the norms. They also require occasional adjustments. Criteria for when an institution is socially unjust are needed for the carrying out of such institutional analyses as are mentioned above in the definition; just as criteria for when an action is individualistically unjust are needed for the classical moral theological analyses of individualistically conceived justice.

(We will later offer a conjecture as to such a general, abstract, criterion.)

If an institution is judged to be unjust, then only those individuals who create or maintain it are guilty. Not everyone who participates in it. This is the labour theory of value applied to capital: institutions are the capital goods of a culture. (Rival theories of

their valuation were refuted during the Capital Controversy, described below.)

The prophets evidently taught or more or less implicitly applied to their situation at least one criterion, the same as in the U.S. Bishops' Pastoral Letter on the U.S. Economy. Those institutions which lead to a worsening in the relative position of the poorest and powerless are socially unjust, as are those which increasingly exclude those sectors from active participation, including decision-making, in all aspects of society, including economic ones (National Conference of Catholic Bishops, 1986, p. 92).

In my opinion this one criterion is enough to decide many of the urgent questions of the day, such as the enormous differential, nearly 2-1, in the appreciation of capital assets compared to the increase in minimum hourly wages over the last generation, such as the differential impacts of globalisation on Third World elites compared to peasants, *et hoc genus omne*.

The duty of the polity, according to the prophets, is to rescue the oppressed from their oppressors, and the foreclosure on mortgages is their prime example of oppression. Social justice requires debt relief and land reform. This applies almost word for word to the Third World of the last fifty years, but also applies, more indirectly perhaps, to the developments in the First World.

## **2. The Crisis in Economic Theory**

Beginning with Adam Smith, free-market ideologues have attacked the prophets as romanticists with a misguided diagnosis of society's ills. They have developed an economic orthodoxy which argues that the progress of society (or even its current efficiency) depends on the enforcement of such contracts without inquiring into their substantive fairness, and

that because of economic growth, the peasants themselves or at least their descendants will be better off for such evictions.

(Orthodox growth theory is not in agreement with the data (Scott, 1989, pp. 96, 138), and its theoretical foundations were shaken in the 1950's by Joan Robinson (1953) and Piero Sraffa, as we are about to discuss.)

Is power or inequality in economic condition a crucial factor, even when hidden under formal procedural equality, or are free market theorists right to assert on the contrary that these results were due to the absence of fully competitive money markets and the harsh realities of famine and the lower productivity of traditional peasant agriculture compared to the progressive techniques and economies of scale introduced by the feudal landlords on their latifundia as they cleared the ground of peasants? Israel's economic and military power flourished in parallel with 'the ruin of Joseph.'

Free-market theory denies the prophets' diagnosis of the ills of Israel and denies that power affects the outcomes of freely entered into contracts as long as the procedural equality of free markets and the rule of law is guaranteed. (The fact is, this theory simply and absolutely denies the existence of economic power.)

Adam Smith, who strenuously disagreed with the prophets' analysis of what was wrong with the economic policies of the monarchy, attempted to sketch the (future) development of a vast free-market theory which would show how individual wishes and actions, individualistically conceived, would be harmonised by the action of a minimally-institutional, minimally-social market mechanism into a just result. Thus social justice would be reduced to two ingredients only: individual justice, i.e., absence of fraud and procedural inequality,

and the correct implementation of the institutions of the free market. ('Unchaining private initiative.') This ideological project received its profoundest check at the hands of Joan Robinson and her co-thinkers at Cambridge in the '50's, in the so-called Capital Controversy. She showed that the free market could not value capital goods. Therefore market mechanisms could not, even in theory, balance the competing trade-offs between growth and current consumption. The rate of profit, or interest, was sociologically determined and could not be reduced to individualistically conceived supply functions and demand functions. Capital is not a thing, not a commodity or economic factor of production, it is a social relation. Consensus, opinion, politics, and power, enters into the determination of the rate of profit even in theory. It was pointed out, although it has been since contested, of course, that the usual modes of free-market analysis are insufficient to determine the rates of profit or growth (because inter-temporal trade-offs being subject to the Kakutani counter-example. . .<sup>1</sup>) Ideologues had relied on this analysis in order to deny, with Samuelson, that the sociological concept of power was needed in the economic analysis of profit. Robinson correctly concluded that it was not possible even in theory, even in the theoretical utopia of a completely free market, for economic factors alone to determine the rate of profit, power relations had always to be analysed.

The Capital Controversy arose between Post-Keynesians at Cambridge University (Sraffa, a communist protégé of Keynes's, and Robinson) on the one hand, and orthodox individualistic utility theorists at M.I.T., on the other, about growth theory to begin with. Ignoring its roots in technicalities of growth theory, it transpired that there was a logical

---

<sup>1</sup> 'However, if agents are uncertain about other agents' behaviour, *so that strategic reasoning intrudes*, no equilibrium may exist even *with* complete futures markets. This problem is severe.' (Weintraub, 1979, p. 92)

circularity in the orthodox theory of ‘capital’ as a factor of production symmetric and equal to labour. The same physical capital goods would count as different quantities of financial capital depending on the amount of inequality in society. This is unintelligible from an individualistic utilitarian standpoint, it should be the other way around: the physical qualities of capital goods in society ought, in orthodox theory, to explain the inequality in society \*via\* the financial requirements to ‘capitalise’ it at its true value (a value to be determined by marginal utility theory and marginal productivity theory, which are totally individualistic theories, as in Walras).

The M.I.T. side sought refuge in more and more elaborate mathematical models of individual choices. (This author is from the M.I.T. mathematics department, where we use Walras’s collected works to prop up an uneven table leg.) As projected by Walras, the rate of profit was supposed to be determined by a theory of individual choices between consuming now *versus* investing instead (in order to consume more later) (so-called, inter-temporal preferences). Nevertheless, the basic logical circularity always remained. (Equally nevertheless, both sides claimed victory.) Capital, in its guise as a definite quantity of finance, is a socially constructed phenomenon, not reducible to either the physics of the machines, and/or an individualistic calculus of utilities and preferences.<sup>1</sup>

The Cambridge side concluded<sup>2</sup> that after all, the only way to avoid a circularity

---

<sup>1</sup> ‘The mechanism of self-regulation of the market does not work . . . It is deeply disappointing particularly for the author that he has to complete this volume with the final section of the Addendum which establishes a theorem that no general equilibrium of full employment is possible unless the equalisation of rates of profits between capital goods is ruled out. I call this thesis the “dilemma of durable goods” . . . [because of this] Walras’s weak point [is] that the true demand functions of new capital goods are absent [from the model].’ (Morishima, 1996, p. 285f.)

<sup>2</sup> A neutral agreed: Morishima (1973, p. 102f.)

of definition was to use the labour theory of value (or something similar) to value capital assets. This would not be identical with their prices, but only for the same reason that underlying values are not the exact reflection of market prices. Values would be more useful for macroeconomic growth models than market prices would be. Even though less useful for training future stock brokers in business school. Profit, in particular, was not derivable from economic factors alone, it was simply the residual left from production after wages were paid. The relative shares of wages and profits were determined by non-economic factors, such as power struggles.

The inadequacy of the ‘free-ness’ of the market, the reliance on power, to govern the economy, parallels the inadequacy of procedural regularity (which is the same thing as the ‘free-ness’ of the market under another name) to perform all the philosophical-ethical functions of substantive fairness.

Orthodoxy, therefore, quickly lost interest in the Capital Controversy: even though Samuelson’s college text on Economics had to make some reference to it in the 10th edition, this reference was excised as soon as possible, and is no longer present. Economics departments which have refused to conform have been punished by provosts, for example, by being split into two, and the offspring differentially favoured.

It also cost Robinson her Nobel Prize—she was nominated for her much earlier work from the ‘30’s.

(American sociological theory also lost interest in its greatest theoretical achievements. Although Parsons was not himself a leftist, the truth about the specificity and conditionality of institutions, was too much truth to bear. Study the ‘free market’ as a conditioned

institution? Instead of as an article of faith? It suggested to others uncomfortable questions. The discipline took other directions after 1978, and we all got stuck with Habermas instead;)

Amartya Sen followed this up with empirical confirmation that the so-called capital reswitching, i.e., the dependence of the valuation of capital goods on the degree of inequality in society (which is obviously a macro-economic, or social, variable), was crucially operating in the development of the Great Bengal Famine of '43. That is, the famine, which killed more than three million people, developed in spite of an economic boom and an increase in the supply of rice as a result of improved harvests (Sen, 1981, pp. 75-80). The reason is because the boom's benefits were unequally distributed. Although all classes benefitted, they did not benefit equally and the degree of inequality increased. This led to instability in the market valuation of rice-stocks, an important capital good. This instability, amplified by speculation, created a famine in the midst of plenty in precisely the way predicted by Robinson's theoretical critique of the free-market mechanisms' inability to value capital goods in a smooth way. The practical conclusion is that growth with inequality can be extremely dangerous, and this analysis shelters the Old Testament prophets, in their critique of the policies of the monarchy, from the attempted attacks by Adam Smith and other free-market ideologues.

This begins to address one of the most contested issues in social justice in America today. Is improving the absolute standard of living of the poorest the relevant quantity, or is the relative standard of living the more important quantity? It would seem that the relative standard, however desirable it may be to consider improving it, would not be relevant to justice. But this analysis shows, at least, that its relevance to justice, while unintelligible

from the individualistic standpoint, can become intelligible when its relationship to capital valuation and macro-economic shifts in parameters is analysed in an institutional fashion. (In fact, the whole significance of ‘standard of living’ depends not only on the individualistic micro-economic quantities which constitute the wage bargain, but equally on the macro-economic shifts which occur as a result of large classes of such wage-bargains being made.)

Again, Robinson’s contention that political and social power is decisive in the determination of the rate of profit, as a residual, is directly opposed to the orthodox view that micro-economic fundamentals are decisive. If power has to be conceptualised in order to theorise about economic questions, then economic theory is not fully autonomous and must be sociologically reconstructed. If two individual events which, analysed in micro-terms or other purely individualistic terms, have substantively different social contents because one was the result of a disparity in power and the other was not, then one might be unjust even when freely and fairly arrived at, while the other might not. Thus their injustice or lack of it would be unintelligible without the use of the concept of power to analyse it. This is hardly reducible to analyses of market structure! For the genesis and maintenance of power transcend the market.

The sociological reconstruction of economic theory that is necessitated by these considerations, and others (Parsons and Smelser, 1956), means not only the destruction of free-market orthodoxy as an ideology, but the opening up of room for the ‘social’ in social justice. This reconstruction is still in progress, but enough empirical work has been done, in a piecemeal fashion, to show that ‘trickle-down’ theories of Third World development are not only unjust, but dangerous.

### 3. The ‘social’ of justice

#### *3.1 Philosophy has not defined social justice*

Philosophers have always defined justice in individualistic terms, for example, giving each person their due.<sup>1</sup> If Justice is a virtue and its study is a branch of ethics, it would be undeniable that only individuals are morally responsible actors. A collectivity or government ‘takes action’ in a sort of analogous sense to the way an individual does, but not the same sense. The actions of a society might be good or bad in a transferred sense from the way the actions of a real person can be good or bad, but not the same sense.

Philosophers have been reluctant to go even further and talk of the moral nature of a society or corporation, and understandably so. We usually talk about the moral responsibility of the individual in the society. A society is not an actor in the same kind of conscious, moral way most classical philosophers and most people have thought real individual people are.

Many, even most, philosophers have gone on to nearly deny that ‘social justice’ exists as a category. Yet most people through the ages, most populists certainly, have thought that there was. The Old Testament prophets were in tune with this tradition, and the populist tradition has cherished their memory as inspired individuals who spoke truth to power, protesting against social injustice in Ancient Israel even when it was legal.

#### *3.2 The social dimension*

Can we now give a philosophically unexceptionable grounding to some sort of definition of social justice (even if it turns out later to be slightly inaccurate?) If there is, is it necessary to adopt some sort of collective responsibility?

---

<sup>1</sup> (Brunner, 1945, p. 17f): valuable, but lacks a definition of social justice.

Modern American sociological theory allows us to distinguish analytically between the individualistic aspects of individuals' actions and the social aspects of their actions. Most of an individual's conscious acts are undertaken within an institution. In fact, the institutional roles one individual might act within, in the course of one day, are multiple and cross-cutting. And intertwined. An ethicist could hardly dare let them off the hook for that reason! (Most sociologists have cared little about philosophical ethics.)

Here is an example, perhaps not very concrete. Two individuals, say an employer and an employee, enter into a contract freely with no force, threats, guile, or fraud. In purely individualistic terms, it is difficult or impossible to see how this could be unjust. Yet it could be a social injustice that the terms of the contract were the usual and customary or prevailing terms. And then the agreement would indeed be unjust. Perhaps the wage-rate agreed on is not a living wage even though the job is a full-time one. Perhaps although it supports life, it (or other conditions of employment) violates human dignity. Perhaps although neither of these is true, it is not equal compensation as is usually agreed on in another sector of the economy which, although different, is really comparable work.

Right now it is hotly contested whether such an example can really exist (barring exceptional or extreme cases such as slavery or racial discrimination).

Two current philosophies have refused to agree to an institutional analysis. Classical (Western) philosophy and that Anglo-American rebellion from it, utilitarianism. Classical philosophy agrees that such a contract could be unjust, but not for the social reasons stated. Aristotle and the Church traditions would say that each good has a just price, and to agree to a contract seriously divergent would be an injustice. The fact that the balance

of power between employers and employees has led to a prevailing wage rate of  $x$  would be an injustice if  $x$  is not fair. If  $x$  is not the natural just price for the quality of labour contracted for.

Free-market theorists, or, ideologues (who are a species of utilitarians) dissent from this. No such contract can ever be unjust, because ‘just’ has no other meaning than procedurally regular. I.e., the regular procedure of arriving at an agreement was followed, no threats, coercion, or fraud. Each party was free (in a formal individualistic and procedural sense of freedom) to walk away from the negotiations.

This view is a direct offspring of the utilitarian view of justice or ‘the good’ which was meant to replace Aristotle (as he was understood at Oxford in 1776) in ethics. But it would be fairer to say that the utilitarian (and free-market ideologues’) position is that there is no such thing as justice. Certainly classical philosophy already had a word for utility, ‘the useful,’ and the idea of justice was as something which could be the opposite of useful. *Pereat Mundi, fiat justitia!* was a proverb (Bentham, 1789, p. 8ff). The point of the utilitarian rebellion in philosophy was to rule out of court a great number of the difficulties in ethical considerations, those which arose from clashes between competing goods or between the just and the expedient, by abolishing one of the terms. Justice. To attempt to hijack this term justice (as a synonym for fairness) for use in describing formal procedural regularity was an attempt to harness populist emotions in the service of this very un-populist project.

(Rights-based analyses of social justice are an attempt to adapt to the utilitarian framework and need not detain us since they do not even try to formulate a uniform

definition of justice at a comparable level of abstraction to classical philosophy and have run into trouble trying to fit contextually-dependent forms of oppression into universalistic rights language frameworks, as was only to be expected by conceding too much to the utilitarians (*pace* Miller, 1999, pp. 221f., 232). Trying to translate substantive social justice concerns into the language of ‘rights’ is more than a little like privatising the commons.)

(The concept of equality of opportunity is an attempt to mutilate substantive concerns about social justice to make them fit into individualistic categories. The same could be said about ‘equal rights, equal capacities’, or even equal results. The branch of economics known as ‘social choice theory’ has nothing social about it at all, it is grounded on the denial of the social as a valid category, and is an attempt to hijack populist language.)

The main target of the prophets’ social criticism was not in the least procedural irregularities in mortgage contracts between peasant land-owners and village or urban magnates, but rather was directed against the enforcement of the contracts at all. Their point was the contracts were unfair even if fairly and freely agreed to.

### *3.3 The irreducibility of the macro to the micro*

Consider that employment contract again. What about the ‘walking away from it’ definition of freedom? Populism, even common sense, is quick to point out that the law, with its procedural regularity, allows the employer with access to finance, or even cash, burning a hole in his pocket, to walk away, equally as it allows the labourer in a hand to mouth existence to majestically walk away in search of other opportunities. Is this allowance really freedom? Only in times of full employment is this ‘substantive freedom’ as opposed to merely ‘formal freedom.’ Therefore ideologues have been at pains to neutralise this

objection. The equilibrium theory of the rate of profit aims to prove that unless there are un-free-nesses in the market, we will always be in a state of full employment (Grandmont, 1983, p. 1). Thus any disadvantage the worker feels in ‘walking away’ is not the fault of the theory of justice, but is the fault of the failure to implement the free market ideal. I.e., the very definition of justice has been reduced to the condition that the market be free. The absence of friction is declared to be the absence of injustice.

It may be enough for the genuinely scientific economist to see that such an ideal is irrelevant to any scientific description of the actual economy (Robinson, 1975, p. 94; Grandmont, 1983, p. 6). But for a philosophical analysis of the concept of social justice we need more. We need to know what is wrong with the economic theory of the ideal even on its own terms. And this was provided by the Capital Controversy of Robinson and Sraffa *vs.* Samuelson and Solow.

The world is, so far, unjust, but philosophers want to study justice anyway.

But the Capital Controversy did indeed centre on the purely logical point of whether even the free-market ideal of rational individuals with perfect foresight of all future market trends could value capital goods consistently. It addressed this ideal possibility in order to shoot it down but hard. It is theoretically impossible that inter-temporal equilibrium should depend on individualistic economic factors. Sociological features of institutions, e.g., power relations in employment or in finance, must be used.

In general, ‘the social’ is when the intelligibility of an individual action cannot be explained in individualistic terms alone but requires an institutional analysis. Most actions will have both an individualistic dimension and a social dimension.

Sociologists in the twentieth century discovered—now we are going to state this discovery in terms of Talcott Parsons’s formulation of it—that the amount (and kind) of conformity to social institutions was much larger (and of a different nature) than could be accounted for in terms of purely opportunistic calculations (calculations of the probability of being rewarded for such conformity or punished for deviance) (Parsons, 1951). Individuals are rational but not rational in a merely opportunistic utilitarian sense and there are profound reasons why societies will be more stable, and functional when this is so. (At any rate, it is an observed fact.)

Economic theory when properly formulated and understood has in its own terms a precise parallel to this. Only the ideologues believe that they have reduced macro-economic theory to micro-economic categories. Keynesians (Davidson, 1972) and others (Bhaduri, 1993, p. 134) such as institutionalists (such as Martin Shubik (1975) the pioneer of game theory within economics) have noticed that this cannot be done.

But do the sum total of these many individual exchanges really explain the aggregate level of society’s offerings (production) or consumption? Is the aggregate level of employment really intelligible as the sum of eighty million individual decisions to work or refuse to work? Is the aggregate level of output of production really the result of consumers’ decisions?

The idea that monetary theory makes the determination of these aggregate levels intelligible in a way that a theory of barter does not, pre-dates Keynes. Even pre-Keynesian macroeconomic theory (Keynes, 1930) relied on additional categories in order to make these aggregate levels analytically intelligible. (Keynesianism (Keynes, 1936) went further still.

For example, there could exist unemployment equilibria (Drèze, 1991).)

Money is, of course, an institution not reducible to the free market.<sup>1</sup> So within economic theory itself we already see the paradigm of ‘the social’: that which is unintelligible when analysed strictly individualistically, in this case the aggregate level of output, becomes intelligible within the framework of an institutional analysis.

(Actually, Parsons was very influenced by Keynes in the details of his theory of institutions and the ‘generalised media of exchange’ (or communication) such as power, influence, and legitimation which alongside of money he proposed played a role in the functioning of society and the interactions between institutions.)

Now consider what economic theory (as opposed to ideology) has, then, to say about our original example. The employment contract. The individual bargain takes place within the given level of aggregate demand (relevant for the employer, in motivating their animal spirits) and given level of aggregate employment. (And not vice versa.) (Not the individual decisions which all harmonise to produce the aggregate levels.) (Not consciously in a way that the actors perceive and factor into their moral decisions, it is not on the moral radar.) For the rational individual, these are *given*. There is no discernible injustice, individualistically conceived, in the free agreement both sides reach, each with one eye on their motivating level.

But the aggregate levels determined whether this was a dignified, participatory wage or not. Etc. And it was the operations of the monetary institutions in addition to the

---

<sup>1</sup> Hahn: ‘To the pure theorist, at the present juncture the most interesting and challenging aspect of money is that it can find no place in an Arrow–Debreu economy.’ (1987, p. 21f). Also de Cecco and Fitoussi (1987, p. 3): ‘There cannot be a microeconomic justification of money. Money is, in its essence, a macrophenomenon, which needs a macro-foundation, to be derived from the institutional world.’

‘real factors’ which determined those levels. Now it is usually admitted that the real factors are *force majeure*, the rain falls on the just and the unjust alike. Hence the free market ideology, postulating that real factors alone determine the aggregate levels, denying the need for the analytical category of monetary institutions, concludes that there is no other moral carrier for the justice or injustice of the agreement than the procedures of the two parties. But economic theory identifies the behaviour of the monetary institutions (at least) as another input, and the social input. Thus there is both an individualistic dimension and a social dimension.

The more extreme example that concerned the prophets (and is still relevant to the Third World (Bhaduri, 1993, p. 222)): a peasant landholder, facing starvation, would seek recourse in a loan from the local magnate (or agent of an urban feudal noble), as we discussed concretely. This was a legal contract freely entered into. The prophets condemned its enforcement, and considered the state’s enforcement of these contracts as an abdication of the state’s duty to rescue the poor from oppression. This abdication was put on their short list of the crimes which merited the total destruction of Israel.

But the Capital Controversy showed that economic theory needs to take into account power relations. The peasant and the magnate have an immense disparity in power. On the other hand, an urban investor and a mercantile enterprise (in Ancient Israel, the word foreigner was synonymous for merchant) do not. Although from a formal, legal, and individualistic viewpoint a loan to a peasant from a magnate and a loan to a merchant from an investor are identical, they are so disparate from a sociological, institutional, and correctly theorised economic standpoint, that they should not even be given the same

title. (And this dichotomy was recognised by the Deuteronomists: usury was forbidden by them in the former case, but allowed in the latter. The Jubilee regulations make urban property permanently alienable, but require the re-distribution of peasant property back to the expropriated.)

We have seen that the attack on the prophets by economic orthodoxy and free-market ideology fails even for purely logical reasons, we need not appeal to those useful shortcuts, scientific insight or historical realism. In particular, the utilitarian arguments in favour of the utility of these contracts is fallacious. Therefore we have to come to terms with their assertion that the enforcement of these contracts was unjust.

#### **4. The definition of social justice**

Can we now define what institutions are socially unjust? Firstly, not all failures to be good are injustices, so we cannot answer this question by painting a picture of ‘the good society.’ (Equality, liberty, and fraternity are no doubt goods, but not the same good as justice.)

##### *4.1 Economic social justice*

If we operate by analogy with the classical definition of individualistic justice, which is that of equal exchange, we conjecture the following:

DEFINITION 2: An economic institution is socially unjust if it arranges that individuals freely exchange unequal values in comparable situations. Usually this disarrangement will be due to affecting macro-levels of the parameters.

Philosophy takes data points from common practices or linguistic usages. The populist ratification of the Old Testament prophets’ testimony must, then, be either explained or

at least explained away. A philosophical commitment, such as utilitarianism, which relies on fallacious economics in order to disregard obvious sociological facts and contradict this populist ratification cannot, then, be correct. Does our conjecture fare any better?

Contract is not a timeless absolute, different societies have different institutions of contract. In fact, the same society can have two substantively different institutions of contract, which are legally indistinguishable but sociologically distinguishable. Their substantive fairness can, therefore, differ even if the procedural regularity criterion of fairness cannot distinguish between them.

The duty of the polity, according to the prophets, is to rescue the oppressed from their oppressors, and the foreclosure on mortgages is their prime example of oppression. Social justice requires debt relief and land reform.

Our preferred abstract definition justifies this empirical insight. Even though the mortgage contract, in the presence of the disparity in power, is freely agreed to, and even though in an individual utilitarian sense the peasant prefers to obtain one more year of freedom before becoming enslaved, rather than starve immediately, it is the disparity in power, institutionalised in the contract, that arranges the unfavourable terms of the loan. Not the objective values of the products exchanged. This is a case of extreme divergence of value from price. The divergence is partly produced by the climatic emergency, but it is amplified by institutional arrangements. Sen's analysis of the Great Bengal Famine of 1943 showed that instabilities in the valuation of the main capital good, rice (Ricardo would have called it corn), related to reswitching, made possible the extreme divergence between value and price that eroded the entitlements to food earned by the poorest labourers.

This is another example of institutional arrangements amplifying or even producing a catastrophic injustice. (For in the case of the Great Bengal Famine, there was no decrease in absolute food stocks. The extremity of the erosion of entitlements was the product of institutional arrangements.) Sen's empirical study is the most important example of the practical importance of the Capital Controversy that has been published.

Returning to the case of employment we are then asserting, with Smith and Ricardo, the labour theory of value, in order to have a standard of 'comparable worth.' (In principle, any scientifically correct economic theory of value would do. But, at least at present, there is no rival candidate. The theory of utility crashed and burned in the Capital Controversy.) The skills of an entrepreneur at guessing market demand, at organising production, and the willingness to bear risk deserve compensation equal to that of comparable workers in different situations. Obviously it is institutional structures which interfere with this equality, not 'real factors.'

The Capital Controversy showed that the will-o'-the-wisp of a supply a demand curve for Capital as if it were a factor of production is incoherent at the level of theory (Harcourt, 1972). So the question of a just reward to Capital need not detain us, the question is simply nonsensical. Capital is not a factor of production, it is a social relation, an institution. The institution, including its rules for rewards, is just to the extent to which it manipulates aggregate levels so that etc., etc. (this is not more circular than the economy itself). It would seem, perhaps, that if capitalists as a class enjoy more power and goods on average, then it is unjust, but perhaps (this is not easily ruled out a priori but perhaps it could be ruled out in other ways) otherwise, capital as an institution could be conceivably just.

Robinson and Sraffa showed that only the labour theory of value could provide a valuation of capital goods at the aggregate level.<sup>1</sup> (The Kakutani counter-example suggests even worse....) Parsonian theory then needs a Post-Keynesian emendation. Institutions are the capital goods of the social structure as a going concern. They require to be constructed, maintained, and adapted. Individuals contribute to this—in fact, no institution is anything other than the stored labour of past individuals. The moral responsibility of individuals for social injustices consists then in these individual acts of creation, maintenance, and adaptation. This makes clear the relation between the individual and the social and the mediated nature of individual responsibility for social injustices. To assert that there was collective responsibility would be parallel to saying Capital was a Factor of Production entitled to a factor return.

#### *4.2 Non-economic social justice and macro-sociology*

There are other exchanges besides economic values. Due regard. Due respect.

Aren't these exchanges analogous to economic exchanges?

If correct are Talcott Parsons's more detailed theories about the ways in which different institutions, including non-economic ones, interact with each other, then we can generalise these considerations and formulate abstract general philosophical criteria for when an institution is socially unjust, even when it is not an economic institution. Parsons proposed that e.g., power was a credit phenomenon, backed by force, analogously to the way money is backed by gold or some other purchasing power standard. Hence capable of inflation and deflation, and having similar effects on social growth as does the price-level on economic growth.

---

<sup>1</sup> Robinson, as quoted in Pasinetti (1981, p. 179)

Parsons's work seems to establish, and there is empirical (Gould, 1987, pp. 16-57) support for it, that each of the four major sub-sectors of society as a whole, the economy, the polity, the integrative, and the latency sub-system, possesses a generalised medium of exchange which is credit-based and is interchanged between institutions. Part of the interaction between institutions consists of exchanges of these media. In the more advanced societies, each medium comes under the control of a kind of symbolic maintenance system analogous to what the banking system is within the economy. For the economy, money, which is created by a banking-fiduciary system and is 'backed' by gold, classically (or purchasing power, currently). For the polity, the standard of value is power, which is 'backed' by force. But just as in a healthy functioning economy, there is much more money than the amount of 'backing,' so in a legitimate government, the amount of conformity people pay to it, due to its power, is much larger than the naked force it commands to 'back' up that power. Influence is, theoretically, another such abstract, symbolic medium of exchange between actors and institutions. The same definition as proffered above in the economic setting makes sense in terms of these other media of exchange, these other standards of value, for all the institutions of society, generalising the case of economic institutions. This is the theory of 'macro-sociology'.

Institutions in the other three functional subsectors of society are socially unjust if they interfere with equal exchanges of the other generalised media of action for comparable worth. This definition requires the construction of a value-theory for each of these media, analogously to the construction, within economic theory, of a value-theory to explain the reality underlying prices. Since Parsons worked within a Marshallian framework (of a

theory of value and equilibrium) rather than a Post-Keynesian theory of value, this is work which remains to be done.

Much work remains to be done, and it is to be hoped that economists continuing in the tradition of Robinson and her school, sociologists, and moralists will be able to find a more fruitful framework for their common endeavours by using the definition of social justice advanced here.

## References

- Bentham, J. 1789. *An Introduction to the Principles of Morals and Legislation*, Oxford
- Bhaduri, A. 1993. *Unconventional Economic Essays*, Delhi
- Brunner, E. 1945. *Justice and the Social Order*, N.Y.
- Davidson, P. 1972. *Money and the Real World*, N.Y.
- de Cecco, M. and Fitoussi, J.-P. 1987. 'Theme and Outline', in, *Monetary Theory and Economic Institutions, Proceedings of a Conference held by the International Economic Association at Fiesole, Florence, Italy (1982)*, edited by Marcello de Cecco and Jean-Paul Fitoussi, London, pp. 1-17.
- Drèze, J. 1991. *Underemployment Equilibria*, Cambridge
- Gould, M. 1987. *Revolution in the Development of Capitalism: The Coming of the English Revolution*, Berkeley
- Grandmont, M. 1983. *Money and Value*, Cambridge
- Hahn, F. 1987. 'The Foundations of Monetary Theory,' in, de Cecco, M., and Fitoussi, J.-P., eds., *op. cit.*, pp. 21-43.
- Harcourt, G. 1972. *Some Cambridge Controversies in the Theory of Capital*, Cambridge
- Keynes, M. 1930. *The Theory of Money*, London
- Keynes, M. 1936. *The General Theory of Employment, Interest, and Money*, London
- Miller, D. 1999. *Principles of Social Justice*, Cambridge, Mass.
- Morishima, M. 1973. *Marx's Economics*, Cambridge

- Morishima, M. 1996. *Dynamic Economic Theory*, Cambridge
- National Conference of Catholic Bishops, *Economic Justice for All*, 1986. Wash., D.C.
- Parsons, T. 1951 *The Social System*, N.Y.
- Parsons, T. 1963. 'On the Concept of Political Power,' *Proceedings of the American Philosophical Society*, vol. CVII (June)
- Parsons, T. and Smelser, N. 1956. *Economy and Society*, N.Y.
- Pasinetti, L. 1981. *Structural Change and Economic Growth*, Cambridge
- Robinson, J. 1953. 'The production function and the theory of capital', in *Collected Economic Papers*, vol. 2, Cambridge, Mass.
- Robinson, J. 1975. 'The Disintegration of Economics', in *ibid.*, vol. 5
- Scott, M. 1989. *A New View of Economic Growth*, Oxford
- Sen, A. 1981. *Poverty and Famines*, Oxford
- Shubik, M. 1975. 'The General Equilibrium Model is Not Adequate for the Reconciliation of Micro and Macro-economic Theory', *Kyklos*
- Weinfeld, M. 1995. *Social Justice in Ancient Israel and the Near East*, Jerusalem
- Weintraub, E. R. 1979. *Microfoundations: The Compatibility of Microeconomics and Macroeconomics*, Cambridge