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The Economics of Evil by Tomas Sedláček

Ladies and gentlemen, it is my great pleasure to hold this keynote speech for the Public Eye Awards. The hosts of the Public Eye Awards have asked me to devote some time to the Economics of Good and Evil, and in this case, sadly but quite necessarily, to focus on the Economics of Evil.

Unintended evil

If only all problems and evils related to the economy were a Bernard Madoff case – a clear case where law was broken and all could be left to the law to sort out. The problem is that this is not even the biggest problem. If only all problems were cases of excessive gluttony and carelessness like we see portrayed in many modern Wall Street movies from American Psycho to books like Citiboy and XY where perverted psychopaths somehow perversely abuse the system. The question is much more complex. Most of the people who caused the biggest problems in our crisis were actually nice, and often didn't even mean to be evil.

It is that certain structures resemble what John Paul once called sinful structures – each person in it is a nice person with no evil intent, yet as a result, evil is created. We can get used to evil, like we got used to child labor and slavery – and, after some time, it even seemed natural to us. This is similar to the banality of evil; the allegedly invisible hand of the markets will not lead us out of this. An external force, an external eye, an open public eye must play this role. This is why we need external criticism; this is why we need to care for business *for the sake of business*.

Culture of markets

Like democracy needs culture without which it would become dangerous, so do the markets. Neither democracy nor markets are automatic; there is always some struggle for something higher. Take democracy for example, although it is the best system that we have known so far, democracy is not “natural”, we had to fight for it. Looking at the history of Western civilization all the way from its roots, the times and cities where democracy prevailed were in absolute minority; like ancient Greece and then modernity, but even here you must subtract modern totalitarian regimes like the Nazi regime or communist ones. If you, so to speak, let go of the steering wheel, democracy is not what you will end up with. Democracy, like love, must be nurtured: “love leaves you baby if you don't care for it”, as the famous U2 song *One* goes. The same can be said of markets; freedom without culture is no freedom at all. I can only drive 120 km an hour if I give up the freedom to wriggle my hands at will, and I will only enter a highway if I can rely on the fact that everybody else will do the same and stick to the rules.

We are more manic than we are depressed

Talking about speed, would it be a correct assessment to say that we have co-created a system which is very speedy, but at the same time unstable, very volatile and grows at an impressive speed but then collapses on a whim? This is nicely demonstrated by the American crisis when it started – the system collapsed *at the height* of GDP growth, stock growth, competitiveness, increases in efficiency and at a low unemployment rate. It was a full throttle bankruptcy. Also, we must note that most of the vicious behavior was not committed during a depression - where it would seem more natural - but during the manic period when we could not see straight, as if we were drunk from success, drunk from rationality, not being able to see or feel - let alone rationalize - the risks, the moral risks that we entered into. And again, let me quote a U2 song “baby slow down the ending is not as fun as the start”. It would be during the manic times that we have a tendency to be more dangerous to ourselves. We have bought speed and sold stability. What must be done now is to reverse this – if it is even possible.

Forgive us for we know not what we are doing

Whoever deals with money, deals with a very curious thing. Until today, we do not really know what money is, properly speaking. One way to look at money is to look at it as a form of energy. There are responsibilities connected with great energies, especially when one's decisions affect other people's lives which is the case for almost every economic decision or economic purchase that you make in

your daily life. There is nothing like an ethical vacuum. And if only we would admit that we do not fully understand the system, we would not take on these risks. We would be more careful – albeit slower. So our prayer should always be: System, please forgive us, for we do not know what we are doing. It was exactly because we believed in our models too much and too blindly that we closed our eyes to a thing that even a child could see. We even quite frequently taught the students of Economics: keep it like the first rule of fight club: You do not talk about fight club.

Invisible hand of society

I will surprise you: I do believe in the self-regulating “invisible” hand, but not that of markets, rather that of society. It is not perfect, but as a whole we can somehow regulate each other. If society becomes too corporate, a generation of hippies will change the direction. When we become too reliant on bureaucracy, Kafka will be born and correct us. When Economics crumble, as it happened in 2008, some other part of society, politics in this case, will come to its aid. In other times, it is the opposite. And this is yet another role of the open society and events like this one: to correct the self-induced blindness of the professional *Fachidioten*, the professional-idiots, that we all have a tendency of becoming from time to time.

We have believed the markets to be divine; we attributed god-like properties to it. Now we know that markets, like everything else that is human, are indeed human too - nothing more and nothing less. Like cars, like cell phones, like knives, they are not perfect, they are human. Human, oh so human.

Value-laden hammer

The economy is often presented as a tool; a neutral tool, like a hammer or knife that can be used both for good and for evil depending on the user. And while this image may be appealing, it is not precise. The tool itself is already value-laden the way it is structured and it influences the way you see and treat the world. We train ourselves to see certain things and to ignore others. So to put it in a parable, a person with a hammer in his hand for a long enough time will start seeing the world as full of nails and he or she will need to exercise extreme caution not to try to hit everyone and solve every jigsaw puzzle with a hammer in their hand.

The fetish of profit

Bernard Mandeville who wrote *The Fable of the Bees: or Private Vices, Public Benefits*, made it sound like ethics didn't matter. In fact, the more greed, the more gluttony and the more stealing, the more the economy has food to feed on. But this thought found its strongest critic in no one less than the very Adam Smith who attacked this thought in his book *Theory of Moral Sentiments* as if he had written the entire book as an antithesis to Mandeville. In this book, the glue that holds society together is not profit or love for oneself, but sympathy for a fellow man, where a fellow man must never become a means to an end but an end in itself.

Now while there is nothing wrong with profit and love for oneself, the moment you fetishize it, it will become destructive. Profit, like GDP growth, may be a priority number six or seven but not a priority number one. Justice, stability, fairness, kindness, and ethics must have dominance over profit and growth. If not, then we are merely destroying that which makes us 'us', and will eventually create a system which will be less and less human and more and more cruel and robot-like. It will not be a world in which even those who gain the most from it, will want to live in.

Tomáš Sedláček is the Chief Macro-Economist of CSOB Bank, the largest Czech bank. He is also a lecturer in the Philosophy of Economics at Charles University and a member of the National Economic Council in Prague. He earned his PhD with honors in Theoretical Economics at Charles University, one of the oldest universities in the world. From 2001 to 2003, he worked as an advisor to Vaclav Havel, the first Czech President after the fall of communism. He is now a regular columnist and popular commentator on radio and TV. He was named one of the “young guns” and one of the “five hot minds in economics” by the Yale Economic Review. In 2009, he published a book on philosophy, ethics and the history of economic thought called “Economics of Good and Evil” which has unexpectedly become a national bestseller. It was later adopted as a play which keeps selling out at the National Theatre in Prague. The book was translated and published by Oxford University Press in 2011 and translations to Chinese, Polish, and Italian amongst others, are planned.