



Bild: Hannes Thalmann

Tomáš Sedláček: «At the end of the day, in certain countries such as Greece or Ireland, we are enslaved by debt.»

The Economics of Good and Evil

Dr. Tomáš Sedláček is the Chief Macroeconomic Strategist at ČSOB, member of the National Economic Council of the Czech Republic, an economic advisor to former President Václav Havel, and the author of the international best seller «Economics of Good and Evil».

Dr. Sedláček was invited speaker at the 42nd St. Gallen Symposium.

You seem to draw from many unusual sources for an economist, from the Old Testament to Adam Smith to Lord of the Rings.

Tomáš Sedláček: Well, I joined two or three things that I love very much, but I never thought about being able to connect because it would be too crazy to connect them – movies with philosophy with economics. However, there's a beautiful, almost untreated land in between.

I think economics, after you study it for 15 years or longer like I have, does tend to become somewhat boring. But in philosophy, if you indulge too deep, it may be somewhat inflationary, creating problems that nobody else cares about. But if you link these two together or you find a path between them, this path is full of what I would call intellectually orgiastic explosive bombs, which I find fascinating. I just never had the guts to share them.

This is also the book. It was never supposed to be a book. It was my scribbling in what I call the evening of an economist. You know, during the day you behave and you do all the numbers and you answer the useless questions, but they need to be answered. Then in the evening, you might be wondering «what is it exactly that we as economists are doing?» So I was scribbling and the book was the result. What surprises me utterly is that many people found this approach – this crazy approach – as interesting as I did. I thought this would be a book for a couple of economic/humanities punks, who can and like to be philosophical, but it found a much wider audience.

Can you give an example of one of these orgiastic explosive bombs?

Sedláček: Well, there is a current example you find in many places like «Lord of the Rings» and «The Matrix», of something that was created to serve us taking over and enslaving us instead. This is the topic of «The Matrix.» We created robots to serve us, to be our slaves, but at the end of the plot we are the slaves and the robots are using our energy. Same with The Ring of Power – created to serve Mordor, but at the end it was the ring, whose destruction destroyed Mordor.

This is sort of a way to connect it with religion. Let's take the Christian and Hebrew story of the creation. God created humans to be some form of relationship, but we've rebelled against God. Now this history is repeating itself in our fears that we create robots to serve us, and in many fictions they rebel against us. They get a life of their own, just like how we got a life of our own broken from God. «AI» or «I Robot», or «The Matrix», or the ring in «Lord of the Rings», it has a life and agenda of its own in which we become submissive.

To connect this with economics, this is the situation with debt. We took debt in order to serve us. At the end of the day, in certain countries such as Greece or Ireland, we are enslaved by debt. This is why we have this debate with the rating agencies. This is why they are so powerful. They wouldn't be powerful at all if France had zero level of debt. Rating agencies could be doing whatever they want and it would be completely irrelevant. So we are literally «servicing debt», we are serving our debt, our own

debt has become our master. We've gone from a puppeteer to puppet in the hands of our debt.

Do you feel that's the case with our economic system as a whole? Has it become, in a sense, Frankenstein's monster?

Sedláček: In a way. I think a lot of people feel this. This is sort of the feeling I get from the Occupy movement. It's become Frankenstein. It's become a detached soulless body. Of course this is an experience we have in personal lives very often. We can also read it in literature, and we can see it in economics. What have we done? What have we created? What games have we started?

You say in your book that the root of economics was as a branch of philosophy?

Sedláček: Yes, this is true. Economics started as a subset of moral philosophy. A great number of the classical economists were moral philosophers, and the questions that they were answering were basic moral questions. Thomas Aquinas for example answers the question «is it moral for me to have two shirts if my brother has none?» This is a moral question. He ends up answering by writing a complete thesis about the nature of ownership and property rights. So these questions started as moral questions. Like the whole topic of economics.

How was this lost?

Sedláček: That's a good question. It's difficult to answer in brief. I think because the idea of science is to be unattached. The first rule of Fight Club is:

you do not talk about Fight Club. The first rule of economics is: you do not talk about good and evil. Why? Because we believe it's scientific, and moral questions should play no role. Which I think is wrong because every single purchase that you make, every single economic decision that you make is in some way a moral decision. Who do I support, how do I support it? Who do I not support? How do I not support it? In every purchase, every managerial decision there is moral impact on others.

One of the interesting things is that we put the moral responsibility into institutions. So now we don't really need to care for the old, we have the pension system. We don't really need to care for the sick, we have health insurance or the government to take care in our moral stead. So when something goes wrong we morally blame the institution. Institutions now-a-days carry morality.

What do you see as the alternatives to our current system?

Sedláček: Well, this is of course the one million dollar question. However, maybe one way how to perceive this is that we have exaggerated our models. Our models have simply gone too far. We started with the idea that we can calculate everything to a one hundredth decimal point. So if you believe you have tamed risk, then you feel that you can drive it much faster. However, we should always remind ourselves that our models are just models. Sometimes very similar to fashion models in that they are just abstraction that are inside

our heads, they are not part of reality. So what has gone wrong is that we relied on our models too much, wasting our reserves away and we thought we had it all figured out. We skated too close to the edge and then got surprised that the edge has cut us. This is one way to read the crisis. We simply forgot to be careful, that the economy is a mystery, not a clockwork orange. So it was like eating all your food while food is plenty and forgetting that there might come a time of hunger.

Do you feel that government regulation is an effective tool for dealing with these risks?

Sedláček: This is something that I think is sort of an economic application of Emmanuel Kant: If you can't regulate yourself, if even the market cannot regulate something itself, then we have to have government regulation.

In certain areas we are ready to risk it. An example we use in text books all the time is the market of tea, there self-regulation works. However, what about the market of children's toys or the market of medicine? There you don't want the market to test trial and error to see which toys are harmful to kids. There you have to have a clear government regulation that you are not allowed to put toxic waste or dangerous chemicals into kid's toys.

A clear lesson from the crisis is that financial institutions had plenty of opportunity to show they can regulate themselves. They did not, so governments need to. Sorry, but it's in our own interest to be regulated.

Interview: Bentley Jenson, Markus Zinsmaier