



## Morality & Economics

### Without Personal Responsibility, No Sound Economy

By Mark T. Mitchell

The emergency bailout has passed and now Americans, along with the rest of the world, wait for some sign of good news. In the days leading up to the passage of the final package, politicians from both parties grimly warned that what was at stake was our “American way of life” and that, without massive intervention, the country and perhaps the world would face an “economic apocalypse.” I must admit that I am skeptical when powerful folks ask for more power. I’m even more skeptical when they do so using fear as a motivation. When the putative choice is massive government intervention or world-wide disaster, we do well to ask how we got into such a conundrum.

Like most Americans, and the honest economists, I don’t pretend to understand all the intricacies of the situation, but I do have a handful of questions that seem worth asking:

1. Is it a fundamental problem when a corporation or sector becomes so big that its failure is believed to threaten the entire national economy? Could it be that scale matters? Can institutions become so large that their potential harm outweighs

their actual (or occasional) good? If yes, then are there measures that could help ensure that economic power is decentralized and therefore less dangerous?

2. The bailout was ostensibly necessary to protect our “American way of life.” That such a reason was offered without justification indicates that our way of life is an axiom that must be assumed but never questioned. But is it too much to consider, if only for a moment, that perhaps our way of life is precisely the problem? Of course, a way of life is a complex thing, but insofar as the “American way of life” consists of living beyond our means, it is unsustainable. To the extent that consumer credit is at an all-time high and personal savings is at an all-time low, the “American way of life” is irresponsible.

3. Public debt mirrors private debt. Both publicly and privately, we have become a nation that demands immediate gratification. Is such a national disposition healthy? Psychologists tell us that adults are capable of delaying their gratification. If so, then publicly and privately we are, according to this measurement, behaving like a nation of children.

4. The best part of the American tradition is characterized by a can-do attitude and a willingness to face the consequences of our decisions. Consider, then, the fact that in many states home

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loans are, by law, nonrecourse. This means that if a borrower cannot afford to make the payment, he can simply walk away from the deal. The property returns to the lender, and its value may or may not cover the outstanding debt. In essence, the bank runs the risk and the borrower runs away. If such laws were eliminated, borrowers would take care not to borrow more than they can afford. Does the fact that it is legal to walk away from a home mortgage make doing so morally right? Is a system based on no-risk credit and legal irresponsibility fundamentally flawed?

5. In our private lives, we expect that our "standard of living" will be higher than that of our parents, and our children will enjoy a higher standard than us. But is that expectation warranted? Do we need a higher standard of living than our parents'? Exactly how high is high enough? When will we be able to say "my standard of living is just fine"? When a society finds itself animated by a fundamental desire for more stuff, the analogy to the nursery is hard to miss.

6. We are told that the catalyst for the current economic troubles is the housing market. Consider the following: in the 1950s the average house had one bathroom and was something under one-thousand square feet. Today, the market standard is one bathroom for every bedroom and the average square footage has more than doubled. Ironically, the size of families declined precipitously during those same decades so that the average square footage per person has risen dramatically. How big is big enough? Would the current crisis be as acute if the houses we bought were more modest?

7. For years, Republicans championed tax reduction while Democrats emphasized government programs. Both sides won the debate. Today, the presidential candidates from both parties argue about whose plan will reduce taxes the most. At the same time, both candidates promise far more government programs than they can afford. The American people want both lower taxes and increased government spending. We want it all now and we want to defer the payment until later (preferably after we are safely dead). How's that for family values?

8. Many of us have parents or grandparents who lived through the great depression (and a few among us remember it). My grandmother raised a

family during those lean years and the frugal habits she acquired by necessity stayed with her the rest of her life. She saved and mended and lived well within her means. She was grateful to have a margin between her income and her expenses and thought it was wise to live modestly. What would our grandmothers say to us now as we struggle to maintain our "American way of life"?

9. Lord Acton's hoary saying is pertinent: "power tends to corrupt." If so, then we should make efforts to decentralize power. Such a sensibility is behind the separation of powers written into the fabric of the U.S. Constitution. We should be concerned, then, when big corporations get into bed with big government. The offspring will be ugly and, we can rest assured, it will be big. This bailout represents a stunning consolidation of corporate and government power. Of course, we are promised that the government will regulate the corporations, but the conflict of interest is glaring. Could it be that the problem is not de-regulation but regulations that favor big corporations over small businesses?

10. In Greek drama *hubris* plays a key role. This is the fatal pride that brings down even the greatest of men. Is *hubris* at the heart of this crisis? *Hubris* is the failure to acknowledge limits. It is the failure to live within the bounds proper to human beings. Ultimately, it is a failure of virtue. When we delay payments rather than our gratification, we reveal our ill-formed character. When our demands for more things are limited only by our insatiable imaginations, vice is running the show. When our leaders tell us that they can solve any crisis if only we grant them more power, *hubris* has taken center stage.

The complexities of the current situation are beyond most of us. Rather than petulantly demanding a fix to sustain our profligacy, perhaps we should soberly look for another way. There is an alternative to our current way of life that is deeply rooted in American history and culture. It is characterized by reverence for the past, responsible action in the present, and care for future generations. This alternative is accompanied by ideals that are not foreign to the American way of life even if they have in recent years been drowned out by the fervent demands for more, bigger, and now. These are ideals like moderation, frugality, humility, and thrift. They sound old-fashioned, but perhaps it

is time to dust them off and try them on for size. The American way of life is sustainable only if we acknowledge that publicly and privately we

are called to lives of responsibility. *Hubris* is only countered when we recognize limits. Could a recovery of modesty be the real fix?