

January 2010

A Utilitarian Approach to the Global Financial Crisis meets Aristotle

As the financial world started to unravel in 2007 into the biggest financial crisis since the Great Depression (1929 - 1939), the leaders of the countries affected, the USA in particular were faced with a choice.

The choice was binary in that the politicians and central bankers could embark on a stimulatory solution or they could simply do nothing and allow free market forces to do the work. Whilst the choice may have seemed clear cut, the philosophical ramifications are anything but.

In order for us to explore this decision through the lens of a utilitarian we need a definition and we need to understand its component part. Utilitarianism is the idea that the moral worth of an action is determined by its ability to create the greatest **happiness** amongst all people affected by the decision. Jeremy Bentham and John Stuart Mill were amongst the leading thinkers of the utilitarian school. The opposing philosophical approach came from the deontologist school which we will leave out of our current discussion.

Enough introduction; lets tackle the question that has been bothering me on this fascinating subject (warning: you will need to put your thinking caps on).

In the definition above the key word is happiness, for utility requires the maximum happiness; but we do not yet have a clear understanding of what happiness really means. Allow me to give you a few thought teasers sparked from a lecture I heard by Oxford Professor of Philosophy Marianne Talbot.

Let's put ourselves for a moment in Tiger Wood's wife Elin Nordegren's shoes and let us assume that she had absolutely no idea of his, um addiction, and that she was deeply in love with "The Tiger". In fact Elin probably believed she was leading the perfect life; so was Elin happy up until the point whereby she realized that Tiger was in fact a Cheater (excuse the pun)? I suspect that the majority of you would believe that she was happy until that point of discovery.

Aristotelian philosophy would disagree with you as in order for there to be happiness there needs to be the physical sensation of happiness, and most importantly there needs to be the belief that the cause of the sensations has truth.

Stay with me as we go a bit deeper. A brilliant scientist comes up with an amazing invention whereby he is able to create happiness. The President of the country is faced with a decision whereby he is able to plug the majority of people in the country to this machine which is able to generate large doses of happiness to the people attached, but unfortunately there will be a small minority of people that will not be connected to the happiness machine as the



country still has some basic needs that require peoples involvement. If the President is a utilitarian or has been elected on utilitarian principles then surely he should go with the happiness machine? The problem we have with this example is did he create the maximum happiness, were the people of this country in fact happy? Once again if you are of the opinion that the people were happy because at the time they were experiencing happiness that would be one way of looking at it, or alternatively we can take an Aristotelian approach and say, no, that there was not in fact truth to the cause of the happiness and therefore what the people attached to the machine experienced was a sensation akin to happiness but it wasn't true happiness.

Now I am sure I have a few of you saying "so what, who cares" but I think this very question is being played out in the response our politicians and bureaucrats have adopted in their approach to the GFC. I believe there has been a typical utilitarian approach to the crisis whereby these elected officials have chosen a response that will appease (read: make happy) the maximum number of people (read: votes) without due regard to the form of the happiness.

As ever the contrarian I believe that our old friend Aristotle has got an important message for us here. Should there be no truth to the "happiness" that the stimulus measures have brought to the stock market and economy over the last 10 months; should we realize that in fact the stimulus was nothing more than a mechanism to hook us up to a "happiness" machine, then we can expect like Tiger Wood's wife Elin Nordegren, a violent swing (3 iron probably) from so called happiness to outright rage.

You cannot simply create a stable/happy economy by simply using more of the problem (read:credit) and try and trick everyone into believing that a solution has been found; in this case the "happiness machine" is Central Banks Quantitative Easing and Governments willingness to borrow with no clear ability to repay the loan. Only once the economy has taken its medicine and started producing more than it consumes can we achieve true happiness. So I ask you all to ponder the question whether the sensation of happiness you have been feeling derived from your 401k or superannuation portfolios' is happiness or a sensation of happiness derived from a false belief – you be the judge!!

Michael Berman, Ph.D.