Nebraska Council
ON ECONOMIC EDUCATION

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Moral Criticisms of Markets

Advancing Economic and Financial Literacy

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The mission of the Nebraska Council on Economic Education is to act as a catalyst and lead a statewide initiative to advance economic literacy.

OUR VALUES

We believe that students should develop economic ways of thinking and problem-solving that they can use in their lives as consumers, savers, investors, members of the workforce, responsible citizens and effective participants in a global economy.

OUR VISION

The vision of the Nebraska Council on Economic Education is to ensure that all students from kindergarten through high school have an ongoing education in economics and to enhance teachers' understanding of economics and their ability to teach economic concepts to their students.

A quick note of introduction.....

Economics, as a science, is ultimately a description of how people, groups, and societies make choices. Like Physics, which is a description of how things interact with other things, Economics does not tell us whether the choices people make are right or wrong any more than the law of gravity tells us whether or not the action of a falling stone is right or wrong. Instead, it informs us about what choices people are likely to make and about the probable consequences of those choices - just like Physics tells us whether or not a stone will fall and what its impact will be. Unlike stones, however, the choices that people make do have ethical and moral meaning and as a result Economics is necessarily entwined with ethical and moral considerations. Written by Paul Heyne, an extraordinary economist, this article addresses the issue of ethics and economics. More importantly it describes how concepts such as honesty, trust and ethics are not only characteristics of a thriving and prosperous economy, but are necessary conditions for it. Prior to his untimely death, I had the honor of working with Paul Heyne and consider him one of my personal heroes. I hope your enjoy his thoughts as much as I have.

-Roger B. Butters, Ph.D
President, Nebraska Council on Economic Education

Moral Criticisms of Markets

By Paul Heyne, Ph.D.

Economics is important because it explains how markets work. Many people have difficulty understanding the operation of markets because they suspect that markets are fundamentally immoral. This essay is an attempt to examine the principal moral misgivings about market systems that I regularly encounter in my teaching of economics.

Selfishness and Self-interest

Perhaps the most common moral objection to market systems is the one that asserts they are based on universal *selfishness*. Is that true? A distressing number of otherwise sensible economists have adopted the unfortunate practice of asserting that economic theory assumes selfishness on the part of all participants in the economic system. That is either flatly false or a completely unwarranted change in the meaning of the word "selfish." Economic theory assumes *self-interested* behavior.

Self-interested behavior is selfish behavior only if one's interests are selfish. We could avoid confusion on this score by saying that economic theory assumes people act to further the projects that interest them. Whether those projects are entirely or primarily selfish depends on what kind of people they are. We should probably be slow to judge. What do we really know about other people's motives? It is wise to remember when we condemn other people's motives that the only motives we know for certain are our own.

Do teachers behave selfishly - to take a group of people most of us know quite well? Were teachers selfish when they chose their profession? When they selected a field in which to specialize? When they chose the schools they attended? The schools at which they then taught? Are they being selfish when they prepare for classes or respond to students' questions? The claim that behavior in markets is distinguished by selfishness makes no sense.

Can Competition Be Eliminated?

Another common moral objection to market systems is the objection to competition, usually thought of by the critics as an interpersonal struggle for superiority. Economists view competition differently. They see it as a process - often completely impersonal process - of trying to satisfy whatever criteria others are using to allocate scarce goods. Scarcity means that it is not possible for everyone to have as much as they would choose to have if they were not required to make any sacrifice to obtain it. Scarcity therefore necessitates rationing, which means allocation by some set of discriminatory criteria. It follows that competition is the unavoidable accompaniment of scarcity and will consequently be found in every human society, whatever the form of its economic organization.

The question is not whether we shall have competition, but what forms it will take. That will be determined by the criteria used to allocate scarce goods. In a market system, the criteria will be the ones chosen by the effective owners of the scarce goods. For reasons to be examined in a moment, the chosen criteria in a market system are usually monetary: people compete largely by offering to pay more money for what they want to obtain and by agreeing to accept less money for what they are trying to supply.

When governments impose price controls to prohibit rationing by money bids and set up alternative systems for allocating scarce goods, competition does not stop. It merely takes new and almost always more destructive forms. That is why neither socialism nor communism can end competition. Even a transformation of human nature would not eliminate competition. If everyone in the society became a saint, competition would still exist because the saints would be committed to different charitable projects, and they would consequently have to devise some (saintly) way to decide how many resources to allocate to each project. Nothing can abolish competition except the abolition of scarcity. And since time will be scarce as long as life is finite, the elimination of scarcity requires the abolition of mortality. Moral objections to market systems alleging that market systems foster competition rest largely on misunderstanding.

People Do Everything for Money

The moral critics of capitalism will probably not be satisfied by these arguments, however. "In a market system," they might reply, "people are motivated primarily by money." And that is certainly true. But what does it mean? Suppose you are a teacher who has been asked to sponsor the debate club. You really don't want to do it, but you agree when you are offered an extra $200 a month in salary. Were you motivated in this case by the money? It would seem

so. But what does that tell us? It does not tell us you are interested only or primarily in money, because money is always a means to some other ends. Suppose Ms. Demosthenes wants the money in order to increase her contributions to the local children's hospital, and she will be giving up her regular bowling nights in order to find the time. Mr. Cicero will use the extra money to buy himself a new set of golf clubs and will find the time by preparing less carefully for his classes. Both Ms. Demosthenes and Mr. Cicero did it for the money, but what a world of moral difference we find in why and how they really did it.

No one except a miser wants money for itself. To say that people are motivated by a desire for more money says little more than that people are motivated by a desire for additional means with which to pursue the projects that interest them. Morally, there is nothing reprehensible - or praiseworthy - about doing something "for the money."

Those who object to the prominence of monetary incentives in market systems have seized upon an important point, but it is probably not the point they were intending to make. In a market system, people do things for all kinds of reasons, out of all kinds of motives - just as in any other kind of social system. What is unique about market systems is that in such systems people change their behavior largely for monetary reasons. This occurs not because market systems foster an obsession with money, but because the offer of additional money is by and large the most effective way to adjust incentives appropriately.

Let's engage in a little mental experiment. Suppose we were living in a money-less economy, in which all exchange takes place by barter. How would we go about adjusting the supply to the demand for the various kinds of labor services we want? Suppose we have too many people who want to drive buses, for example, and too few people who want to service telephone lines. What would we do to get people out of the buses and up on the telephone poles? Remember that everybody is different. We could try to discourage potential bus drivers by emphasizing the heavy responsibility they bear for the safety of others, but this would be counterproductive for people who think that responsibility makes their job meaningful. We could try to encourage people to train with the phone company by emphasizing the healthful effects of outdoor work; but this would be counterproductive for all those who associate outdoor work with temperature extremes and rainy weather. We could offer bus drivers less meat in exchange for their services and offer more meat in exchange for the services of those who maintain telephone lines, but this would not work with vegetarians.

The easiest way to persuade people whom you don't even know - and almost all of the social transactions in a market economy are with people we don't know - is to offer more (or less) money. Those who complain about the predominant role of monetary motives is a market system are almost surely confusing *marginal* motivation with *total* motivation. *Money tips the scales.* That's all. It tips the scales precisely because it is money; which provides generalized command over resources. In the absence of some universally accepted scale-tipper, we could not have a market economy. That means we could never have developed the extensive division of labor that has made us so wealthy. Our civilization depends on the fact that an ounce of monetary persuasion, because it reaches almost everyone, produces a ton of responsive action.

An Uncaring System

Sometimes the language of the critics suggests that they are objecting not so much to the action of individuals as to the goals or intentions of the system itself. In responding to this objection, we must keep in mind that a social system really doesn't have any goals or intentions. And that may be exactly what the critics find so objectionable. Market systems allegedly accept what emerges from individuals' pursuit of their own interests and ignore the inequalities and injustices that this produces. Market systems are "uncaring."

Considered abstractly, that may be quite true. But market systems don't exist in abstraction; they are always part of a larger social system. And it is certainly not the case that societies relying extensively on market systems ignore inequalities and injustices. Individuals, private groups, and governments regularly use the wealth that market systems generate to provide many kinds of assistance to persons who have fared poorly in those systems. Has the repudiation of market systems in the twentieth century by some governments produced more social justice, however we choose to define that slippery notion, than one finds in societies with full-fledged market systems? The poor receive less income than the rich in a market system; but the rise of market systems has arguably conferred its largest benefits on the poor, making the poverty of those who are least well off under a market system the envy of people in societies where markets have not flourished.

Personal and Impersonal Transactions

Are there then no legitimate reasons to entertain moral misgivings about a society in which people alter their behavior primarily in response to changes in monetary incentives? Consider the following story.

You and your neighbor are mowing your lawns on Saturday morning. Suddenly he collapses in pain. You help him into the house and call the doctor. It turns out he has strained a muscle in his back. You go outside, finish mowing your lawn, and then finish the mowing of his lawn. That evening his wife comes over to tell you Jack is feeling much better and is very grateful for your help. She then hands you a $20 bill which she says Jack wants you to have for mowing his lawn. How would you feel? Probably stunned. Embarrassed as well. Even insulted. Why? Because what you did was done out of friendship and personal concern. It wasn't done for money, and the offer of money asserts that you and Jack are not friends.

It's not the fact that Jack is offering you something in return that bothers you. Suppose his wife had handed you a box of chocolates that you knew cost even more than $20. You might be a bit embarrassed. You would say, "that isn't at all necessary." But you would not be insulted, because the chocolates are a personal gift in a way that money is not. Money is *peculiarly impersonal.*

But that is its chief virtue! Precisely because of its impersonality, we can use money to facilitate mutually advantageous transactions among millions of people who know little or nothing about one another personally. When we want pizza while traveling through a town we've never visited before, we just step into a pizza place, order a medium thin with sausage and green peppers, and in ten minutes we're eating pizza. We don't have to find a pizza purveyor who likes something we're carrying in the trunk of our car, or who would appreciate an hour or so of the labor services in which we happen to have specialized, or who is willing to provide us with a pizza because he shares our religion or admires our politics. We do our thing in return for money; he does his thing in return for money. We can each promote the interests of the other very effectively because we both value money.

Adam Smith observed early in *The Wealth of Nations* that, in a market society, everyone "stands at all times in need of the cooperation and assistance of great multitudes," and that we cannot expect to obtain cooperation or assistance exclusively from the benevolence of others because life is too short for any of us to gain the friendship of more than a handful of other persons. We obtain the help of others by appealing

not to their benevolence but to their self-interest. And we do that by offering them money. The institution of money enormously expands the number of people on whose assistance we can reliably count, by enabling us to gain the cooperation not just of friends but of millions of people we have never even met. In the absence of money, almost all social cooperation would have to be on a *personal* basis. In a market society, which is necessarily a monetary society, the social cooperation that provides all of us with most of what we need or want is predominantly *impersonal*.

For most of us, impersonal social relations arouse moral misgivings. We believe it is better, from an ethical standpoint, to provide others with pizza because we know them, know what kind of pizza they like, and want to see them happy, rather than to provide the pizza because we want their money. That looks like using them for our own purposes, and we have ethical qualms about using people as means to our ends. The very phrase "using someone" expresses these moral misgivings.

But in a market society, most interpersonal transactions are also impersonal transactions. The food we eat has been grown by farmers who made their planting decisions not with an eye on the appetites and nutrition needs of others, but with both eyes on the bottom line. Those who supply our food neither know nor care about our weight, cholesterol level, tastes, or values. And it's a good thing that they don't. For if the farmers of the world decided not to produce for profit any longer but to satisfy human needs, and if they consequently went off to the cities to find out what people really need and want so that they could perform all their work on a personal basis, within a very short period of time most of the world's population would die of starvation.

We tend to suppose, quite wrongly, that the only genuinely ethical relationships between people are personal relationships. We consequently have deep moral misgivings about the very transactions that have made our civilization possible - the impersonal transactions that constitute the market system and that have, over the course of a few centuries, enormously expanded our ability to provide one another with healthful food, comfortable shelter, rapid transportation, remedies against disease, the discoveries and accomplishments of natural science, books in profusion, recorded music, and everything else that

goes into our so-called "standard of living" - while at the same time vastly extending our freedom both by offering us a multitude of options and by freeing us from arbitrary restrictions on our choice of life goals and on the means to further those goals. To reject impersonal transactions as unethical amounts to rejecting the foundation of modern life.

There have in fact been massive experiments in this century with societies committed to the abolition of "commodity production" - the Marxian term for the organization of production through the impersonal transactions of the market system. If history ever pronounces "final verdicts," it pronounced on in 1989 on these experiments. Market systems do not produce heaven on earth. But attempts by governments to repress market systems have produced in the twentieth century something very close to hell on earth.

The Moral Foundation of Market Systems

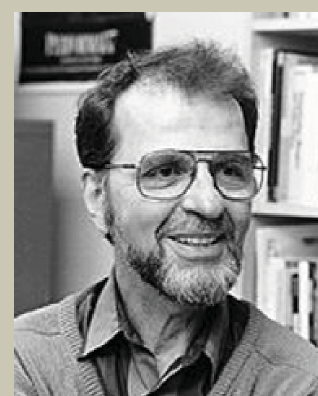
The overwhelmingly impersonal character of market transactions and hence of a society dominated by market transactions does nonetheless present genuine moral issues. Markets generate powerful centrifugal forces in society by making individuals increasingly independent of specific other individuals. In a market society, Adam Smith correctly observed, everyone requires continual assistance from others. But not from any particular others. Those others are interchangeable. It is this feature of market systems that enables participants to be highly interdependent and yet at the same time highly independent.

The pressing question is how much independence a market system can tolerate. An effective market system presupposes some degree of community: at least enough community to provided consensus on basic rights and obligations. In a society where there is no commitment to such fundamental moral principles as equality of all before the law; where the civic virtues of tolerance and respect for others cannot be assumed; where fear of external authority is the only constraint on behavior because public opinion is not respected; where self-respect is not an effective force because society no longer presents a mirror in which the self can be observed - in such a society markets will not function satisfactorily.

If this analysis is correct, then defenders of market systems should themselves become to some extent moral critics of market systems. For the market requires moral foundations which cannot be created by market transactions themselves. Moral foundation are nurtured in communities - in families, neighborhoods, religious fellowships, local political associations, and other voluntary groups. By fostering the steady disintegration of these communities, market transactions may tend over time to undermine the moral foundations upon which they rest. That in itself is sufficient reason for those who place high value on the maintenance of market systems to remain in dialogue with the moral critics, who constantly remind us that a moral consensus is essential to every society and that its nurture and preservation is not a task that can safely be left to the market alone.

About the Author: **Paul Heyne (1931-2000)**

A gifted and dedicated teacher of economics, Heyne taught at Valparaiso University (1957-66), Southern Methodist University (1966-76), and the University of Washington (1976-2000). He had extraordinary success in giving students an appreciation of basic economic principles.



Heyne began his higher education as a divinity student at Concordia Lutheran Seminary, and he was ordained as a minister, but he never became a pastor. His Ph.D. at the University of Chicago was in Ethics and Society.

Besides his university teaching and his active lecturing for various foundations, Heyne devoted much time to religious, community, and family affairs. Many people around the world came to admire him, not only for his clear writing and engaging teaching but also for his generosity, his willingness to listen carefully and respectfully to the views of others, and his manifest decency as a human being. He was genuinely unique, and a host of friends mourn his untimely passing to cancer.

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