
Lesson 4 – Do Markets Make Us More Moral?

The students apply economic analysis to a case study of discrimination to demonstrate how market incentives can reward the development of virtuous character traits such as hard work, honesty and acceptance of others.

OVERVIEW

Economics

Behavior in the private sector is sometimes associated with questionable moral practices, as in the high-profile scandals involving Enron Corporation and Global Crossing, for example. Adam Smith, however, pointed out that competitive markets, in which people seek their own self-interest, can produce good social outcomes. This is true especially compared with alternative systems that rely on coercion or force. Within a supportive institutional framework, modern markets rely on voluntary relationships, respect for private property and promotion of individual freedom. As a result, competitive markets foster certain positive values and behaviors.

Ethics

The idea that competitive markets might foster morally positive values and behaviors is controversial. Markets have often been associated with a long list of horrors including unbridled greed and evil institutions such as slavery. A closer examination, however, reveals that the absence of markets is often associated with worse moral outcomes. Most people who lived under Marxist rule in China and the former Soviet Union have abandoned the romance and mythology that nonmarket systems still hold for some. Within a supportive system of justice, competitive markets more easily align people's personal interests with society's interests by providing a system of incentives that encourage self-discipline, honesty, tolerance, cooperation, courtesy, enterprise and responsibility.

LESSON DESCRIPTION

In this lesson the students discuss situations that demonstrate how markets reward moral behavior. Then they apply an economic analysis to discrimination on the basis of race, gender and religion. In doing so, they discuss how people in markets and people in government face different incentives regarding discrimination. Next, they read about and discuss several values that market systems encourage and nonmarket systems discourage. The students also learn that markets do not always function perfectly and aren't capable of handling all of our moral problems; other institutions play important roles in shaping moral values.

CONCEPTS

Accountability
Cooperation
Courtesy
Discipline
Discrimination
Enterprise
Honesty
Incentives
Invisible hand
Market
Responsibility
Self-interest
Tolerance

CONTENT STANDARDS

4. People respond predictably to positive and negative incentives.
10. Institutions evolve in market economies to help individuals and groups accomplish their goals. Banks, labor unions, corporations, legal systems, and not-for-profit organizations are examples of important institutions. A different kind of institution, clearly defined and well-enforced property rights, is essential to a market economy.

OBJECTIVES

The students will:

1. Identify how markets provide incentives to reward several positive values and behaviors.
2. Explain how discrimination on the basis of race, gender and religion can adversely affect revenue and profits.
3. Identify several values and behaviors that markets foster.
4. Identify limitations of markets in fostering positive values.

TIME REQUIRED

45 minutes

MATERIALS

1. Visuals 4.1, 4.2, 4.3, 4.4 and 4.5
2. One copy of Activity 4.1 for each student

PROCEDURE

1. Display only Part A of Visual 4.1. Explain that behavior in the private sector is sometimes associated with questionable moral practices. Discuss how high-profile cases such as Enron and Global Crossing seem to draw our attention.
2. Display the question in Part B of Visual 4.1. Ask the students whether corrupt behavior is a problem that people exhibit only in the private sector. Allow them a chance to respond with examples from their community, then show the answer in Part C of Visual 4.1. Say that people in government and in the nonprofit sector can also behave immorally. Emphasize that immorality exists in all walks of life. Fortunately in the United States, such cases are the exception; thus they command front-page headlines. The United States is a country with generally strong moral behavior, which contributes to our economic success and general well-being.

3. Display Part A of Visual 4.2. Tell the class that people often complain about the selfish behavior they observe in others. They point to high prices of prescription drugs or gasoline as examples and claim that *markets* are the source of these and other problems. They view market systems as fostering unseemly values such as egoism, greed and a winner-take-all attitude.
4. Display the question in Part B of Visual 4.2. Allow the students a chance to respond. You might prod them by asking if they get benefits from watching movies or listening to CDs produced by private companies. You could also ask
 - if they traveled to school in a car or a bus manufactured by a private company.
 - if they enjoy a food produced by a private company.
 - why they tend to buy private-market products rather than a government-produced CD, car or food item. *Where available, consumer products made by government-owned industries are often an inferior quality and cost more — as anyone who visited the Soviet Union under communism can testify.*
5. After the students have finished responding to these questions, display the answer in Part C of Visual 4.2. Explain that economists focus on how incentives affect behavior. In particular, economists observe that competitive markets provide positive incentives that reward values including respect for others, individual freedom and voluntary *cooperation*. Tell the students that the purpose of this lesson is to examine how market systems may contribute to the formation of positive moral values and behaviors. The lesson also notes that markets are not capable of handling all our moral problems.

The quote from Adam Smith, the founder of economics, shows how the operation of competitive markets — people seeking their own *self-interest* — often results in good social outcomes. Smith used the term *invisible hand* to describe how people can

- do good for others by helping themselves. You might point out, for example, that when a business such as Apple Computer Inc. expands its business by offering a new product such as the iPod, it intends primarily to help itself and its shareholders by earning increased revenue and profits. At the same time, however, the new product also benefits others. New jobs are created in the computer and music industries. Consumers have a new product and more music for their personal enjoyment.
6. Display Part A of Visual 4.3. Go over the scenario with the students.
 7. Display the question in Part B of Visual 4.3. Ask the students which job candidate they would hire and why. Allow them a chance to respond, then show the answer in Part C of Visual 4.3. Explain how the desire to earn a profit provides an incentive for business owners to hire the most productive workers rather than allow prejudice and bias to influence their hiring decisions. Tell the students that discriminatory practices can be unprofitable business practices.
 8. Display Part D of Visual 4.3. Tell the students to note that government hiring, in contrast to hiring in the private sector, involves no consideration of profit, so government may hire workers who have better connections instead of workers who are more productive. This reminds us that other institutions in society can exhibit problems of *discrimination* and immorality, but these institutions may have fewer and weaker mechanisms for enforcing accountability than do businesses.
 9. Display Visual 4.4. Explain that Southern streetcar owners early in the 20th century resisted Jim Crow laws (laws that enforced segregation by race). The streetcar owners may have been as racially biased and prejudiced as other people at the time, but the profit motive influenced them to avoid discriminating against African Americans because they recognized that nondiscrimination was a wise business decision. The profit motive influenced their desire to resist segregation.
 10. Display Visual 4.5. Explain that competitive markets, while providing powerful economic incentives, are not the only influence on people's behavior. Social norms also influence people's decisions: There was a time, for example, when baseball club owners feared that they would lose revenue from white customers if they did not discriminate. Families, religions, schools and voluntary organizations also affect moral behavior.
 11. Distribute a copy of Activity 4.1 to each student. This activity compares and contrasts the values that market systems promote with the values promoted by nonmarket systems. Have the students read the activity and then briefly discuss the main points as a class. Focus on the reasons why markets work better than command systems and why the values that markets foster are more positive than the values fostered by command systems. Here are some key discussion points:
 - Markets rely on voluntary relationships rather than force.
 - Markets create incentives for people to serve others in order to benefit themselves. These incentives operate to keep business interests aligned with society's interests and foster honesty, integrity, hard work and respect for others.
 - Markets promote individual respect and freedom because the choices of consumers and producers are the basis for exchange.
 - Markets are more accountable than command systems because profits and prices make information more transparent.
 - Markets promote respect for private property because property rights are protected.
 12. Ask the students to write the answers to the questions at the end of the reading.

When they have finished the assignment, discuss the answers as a class.

Question 1. According to this reading, what is the first economic freedom in a modern market system? *Own yourself*

Question 2. Slavery is often regarded as a market institution. After all, it involved many of the characteristics of a market including ownership, prices and exchanges. Do you agree that slavery was a market institution? Explain your answer. *Slavery was not a modern market institution. It depended on involuntary trade. African Americans were forced to provide their labor and were therefore exploited. A free society depends on a system of justice to define and defend property rights. The right to own oneself is a basic property right upheld today by ethical principles and enforced by our legal system (the 13th Amendment to the U.S. Constitution outlawed slavery). A competitive market system relies on voluntary exchanges, not force. This is why Adam Smith called slavery “the unfortunate law,” which, he noted, held back progress.*

Question 3. How might owning and operating a restaurant encourage values such as honesty, enterprise and courtesy? *If a restaurant owner is dishonest — charging arbitrary prices, serving subprime meats when the menu describes prime cuts, consistently giving incorrect change — customers will not return. Profits will decline. Profits will also decline if the owner is rude to or annoys customers. Few customers want to dine in a restaurant where they are not treated with respect. Enterprising restaurant owners might create new menu items, vary portion sizes to fit the interests of customers or experiment with discounts for families or senior citizens. These owners will likely be rewarded with steady business and healthy profits.*

Question 4. How might owning and operating a shoe store encourage values

such as tolerance and responsibility? *A profit-motivated shoe-store owner would want to earn the business of all types of people and would not want to discriminate against customers on the basis of race, gender or religion. The desire to earn a profit provides an incentive to tolerate differences in others. Business ownership also encourages responsibility. Losing profits and facing possible bankruptcy are sobering for business owners. They have an incentive to make careful and responsible decisions.*

Question 5. How does the construction of a new home encourage cooperation among strangers? *Building a home is a complicated process that depends on many people, usually strangers, to work together. It involves gaining the voluntary cooperation of plumbers, electricians, drywall hangers, painters, carpenters and others. The one thing that makes all these people cooperate with each other is their desire to earn an income.*

13. Explain to the class that markets are limited in their ability to foster positive values and behaviors. It is impossible to know the extent to which competitive markets encourage values such as tolerance and courtesy, as well as the extent to which markets depend on pre-existing values and behaviors. Although competitive markets foster and reinforce certain values and behaviors, markets alone cannot instill them completely. Moral education needs to be the responsibility of other institutions such as families, religious institutions and volunteer organizations.

CLOSURE

14. Review the main points of the lesson by asking the following questions:
 - A. Why is it often in the best interest of a business owner not to discriminate on the basis of race, gender or religion? *Businesses pay a penalty for discrimi*

nation on the basis of race, gender and religion. Failure to hire the most productive workers or sell to certain customers because of bias or prejudice reduces the owner's chances of increasing revenue and earning a profit.

B. What are some of the values that market systems foster? *Discipline, honesty, tolerance, cooperation, courtesy, enterprise and responsibility*

C. What role does a system of justice play in market systems? *A system of justice provides the "rules of the economic game." Specifically, it defines the types and scope of property rights and enforces these rights.*

The bottom line: Markets make us more moral: They create incentives for people to serve others in order to benefit themselves. However, moral behavior depends on more than markets and is influenced by institutions such as families, religions, schools and volunteer organizations.

ASSESSMENT

Multiple-Choice Questions

- 4.1 Competitive markets promote all of the following behaviors except
- tolerating the values and opinions of customers.
 - using force to achieve economic progress.*
 - providing incentives for individuals to serve other people.
 - encouraging individuals to discipline themselves.
- 4.2 Even if no laws require it, business owners have an economic incentive to be tolerant when they hire employees and serve customers because of
- their religious views.
 - their fear of major lawsuits.
 - the Occupational Safety and Health Administration.
 - the profit motive.*
- 4.3 In *The Wealth of Nations*, economist Adam Smith argued that people can help others by helping themselves. His term for this idea was
- the social-service paradox.
 - benevolent dictator.
 - the invisible hand.*
 - enlightened self-absorption.

Essay Questions

- 4.1 In the early 1940s, professional baseball, like much of American society, was characterized by rigid racial segregation. Several baseball club owners were convinced that African-Americans should not play in the major leagues. But in 1947 club owner Branch Rickey brought Jackie Robinson up from the minor leagues to play for the Brooklyn Dodgers. A few years later many African-American players joined major league teams. Why do you suppose Branch Rickey took the risk to sign Jackie Robinson? *He faced incentives to find the most productive players he could. Rickey wanted new talent to help the team win a championship. He hoped a winning team would put more paying customers in the stands, thus enhancing the club's revenue and profits. He sensed that fans would want to watch good baseball regardless of the race of the players. He was willing to risk violating racial codes and put an end to racial discrimination in baseball to be a business success. From the perspective of virtue and character ethics, Rickey may have also acted the way he did because he felt it was the morally right thing to do.*
- 4.2 You are the manager of a new boutique coffee shop and art gallery called Frame of Mind. Your immediate task is to complete the training of your three new employees. You have already shown them how to prepare the different coffee drinks, and you have helped them become familiar with the artwork in the gallery and the artists whose work is on display. Now you need

to train the employees on the importance of good customer service. Identify and explain two values that you will stress to ensure good customer service and foster positive behavior on the part of your employees. *Answers will vary and may include honesty, tolerance and courtesy. If customers suspect that they are being cheated, they are not likely to return. The store welcomes customers of all races and creeds because all paying customers help employees to earn an income and the shop to earn a profit. Courtesy relates to that old adage in business, “the customer is always right.” There are plenty of other coffee shops and art galleries; customers could go to these competitors. Customers are not likely to return to a shop where the staff is rude or disrespectful.*

GOING FURTHER

Economics of Discrimination: Thomas Sowell has written extensively about issues related to racial discrimination. His book *Applied Economics: Thinking Beyond Stage One* (New York: Basic Books, 2004) has a highly accessible chapter titled “The Economics of Discrimination.” It provides an insightful analysis of how markets provide incentives that discourage racial and religious discrimination. He cites several examples from different periods in U.S. and world history. This book also contains chapters on the economics of housing and medical care and the economic development of nations.

Bourgeois Virtue: Deirdre McCloskey has influenced thinking in the area of values and economics. In “Bourgeois Virtue,” (*The American Scholar*, Spring 1994, 177-191), she draws distinctions between three types of virtues — aristocrat, peasant and bourgeois — and explains and defends the virtues of the bourgeoisie (rising middle-class traders and shopkeepers). “The growth of the market, I would argue, promotes virtue, not vice,” she writes. “Most intellectuals since 1848 have thought the opposite: that it erodes virtue

. . . . And yet we all take happily what the market gives — polite, accommodating, energetic, enterprising, risk-taking, trustworthy people; not bad people. In the Bulgaria of old . . . the department stores had a policeman on every floor, not to prevent theft but to stop the customers from attacking the arrogant and incompetent clerks selling goods that fell apart at the moment of sale. The way a salesperson in an American store greets customers startles foreigners: ‘How can I help you?’ It is an instance of miniature bourgeois virtue” (181).

McCloskey elaborates on this theme in *The Bourgeois Virtues* (Chicago: University of Chicago Press, 2006). In this book, she argues that private property, free labor and prudent calculation form the foundation of ethical good in modern society and are not a moral threat to society. She argues that by following antibourgeois values of the proletariat and the aristocracy, “the 20th century paid a butcher’s bill.”

VISUAL 4.1

SELF-INTEREST VS. SOCIAL GOOD

PART A

In recent years, some people have developed the impression that immoral behavior exists only among individuals in the private, for-profit sector. This impression was reinforced by the failures of two major corporations.

- Enron Corporation was an energy-trading company. Using questionable accounting practices, it manipulated its earnings to disguise large losses. Its bankruptcy in 2001 was a major corporate failure brought about by fraudulent practices.
- Global Crossing is a major telecommunications company. It filed for bankruptcy in 2002 amid accusations that company executives made personal fortunes while shareholders lost billions of dollars.

PART B

Question: Are leaders in government and the nonprofit sector immune to immoral behavior?

PART C

Answer: Unfortunately, no. Moral failures exist among leaders in business, government and the nonprofit sector:

- In 2005, 17 Chicago government officials were under indictment for corruption in a truck-hiring program and for gross abuses in the city's contracts for minority and women-owned businesses.
- In 2005, 52 Florida government workers were arrested for selling thousands of commercial driver's licenses to illegal drivers.
- In 2006, federal officials alleged that 14 employees and others associated with the Red Cross stole donations intended for victims of Hurricane Katrina. Officials charged 49 suspects in the theft of about \$200,000.
- In 2006, the financial manager of the Salvation Army in New Jersey was charged with embezzling more than \$385,000 from the organization between 1995 and 2002.

Moral: No sector of society is immune from human failings. Improving the moral character of people in all walks of life makes society work better.

VISUAL 4.2

THE MARKETS AND ADAM SMITH'S INVISIBLE HAND

PART A

Many people are skeptical of market systems. They fear markets may foster values that are harmful to society such as

- discrimination.
- dishonesty.
- excessive competition.

PART B

Question: Many economists view markets differently. They say that markets generally contribute to the social good, not evil. Can you think of reasons why markets might serve the interests of society?

PART C

Answer: Within a basic system of justice, competition forces businesspeople to consider the interests of others if they are to succeed. A business cannot make a profit if it ignores the desires of consumers, who make up 70 percent of the economy.

This concept is brought home by a famous quote from Adam Smith, considered the founder of economics:

[Every individual] neither intends to promote the public interest, nor knows how much he is promoting it [H]e intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.” (Adam Smith, *The Wealth of Nations*, eds. R.H. Campbell and A.S. Skinner, Indianapolis: Liberty Press, 1981 [1776], 456)

VISUAL 4.3

THE ECONOMICS OF DISCRIMINATION

PART A

You are the manager of the Bigger Box Discount Store, and you want to hire a new worker in the food-service department to manage the popcorn concession.

- You will pay the worker a wage of \$10.00 an hour.
- You charge consumers \$1.20 for a bag of popcorn. After deducting the cost of the popcorn, you will have \$1.00 left over to pay the worker and earn a profit.
- The new worker must make and sell an average of 10 bags an hour for the popcorn concession to break even.

PART B

Question: You have two candidates for the job: Which candidate will you hire and why?

- A man the same race and age as you who can make and sell eight bags of popcorn an hour
- An older woman whose ethnic background is clearly different from yours and who can make and sell 20 bags of popcorn an hour

PART C

Answer: If your goal is to maximize profits, you will accomplish this by hiring the worker who makes and sells 20 bags an hour. To the profit-motivated manager, it is profit — not race, age or gender — that provides a basis for decision making. In general, businesses run for profit have an incentive to hire the most productive workers regardless of race, gender, age or religion.

PART D

Government faces no consideration of profit when it makes hiring decisions.

VISUAL 4.4

MARKETS AND RACIAL DISCRIMINATION

Markets cannot solve all of society's problems, including rampant discrimination. Sometimes, however, the profit motive can lead businesses to play a role in creating new opportunities for the disadvantaged.

For example, between 1874 and 1964 various state and local laws in Southern states required segregation of the races. During this “Jim Crow” era, almost all public places including schools and transportation systems were required to maintain separate facilities for whites and blacks. But Southern streetcar owners early in the 20th century refused to discriminate against African Americans because discrimination reduced their profits.

One manager complained that Jim Crow segregation laws increased costs because the laws required the company to “haul around a good deal of empty space that is assigned to colored people and not available to both races.”

African Americans boycotted streetcar lines that obeyed the laws and discriminated against them. Some African Americans formed competing horse-drawn carriage companies.

In Augusta, Savannah, Atlanta, Mobile and Jacksonville streetcar companies refused to enforce segregation laws for as long as 15 years after the laws were passed.

But one by one, the companies succumbed as government pressure for segregation grew and began to outweigh the costs imposed by the penalty on profits.

In 1954, the U.S. Supreme Court declared in *Brown v. Board of Education* that segregation in public schools was unconstitutional. Other segregation laws were repealed with passage of the Civil Rights Act of 1964.

Source: Jennifer Roback, “The Political Economy of Segregation: The case of segregated streetcars,” *Journal of Economic History*, 56, no. 4 (December 1986): 893-917, as adapted in “Discrimination” by Linda Gorman in *The Fortune Encyclopedia of Economics*, edited by David R. Henderson (New York: Warner Books, 1993).

VISUAL 4.5

LIMITATIONS OF MARKETS

Competitive markets can provide incentives that work against discrimination. However, markets have sometimes contributed to discrimination:

American professional baseball was once characterized by rigid racial segregation. Some owners hired only white players because of long-standing racial prejudice. Other owners feared fans would react negatively at the box office if they hired nonwhite players, so discrimination existed for economic reasons.

Nonmarket factors also influence people's behavior: Some business owners may value their social status more than profits. These owners might condone racial or gender discrimination even if discrimination reduces their profits.

Moral norms and values are influenced by many institutions:

- competitive markets
- families
- religions
- schools
- voluntary organizations

ACTIVITY 4.1

FOUNDATIONS OF MARKET VALUE

Directions: Read the information below and be prepared to discuss the key points with the class.

Modern market systems operate within an institutional setting that protects private-property rights. Because of this, competitive markets must rely on voluntary exchange rather than force. Market systems also permit individuals wide freedom to make their own choices.

Yet markets do not operate in isolation. In a modern economy the “rules of the economic game” are established by a system of justice, which secures the type and scope of property rights. For example, the 13th Amendment to the U.S. Constitution, passed in 1865, profoundly altered property rights in America by eliminating slavery (ownership of another person).

To Adam Smith, justice “is the main pillar” that upholds society. In a modern market system, the first economic freedom is that each person owns himself or herself. Therefore, slavery, murder, rape and theft are unjust because they violate private-property rights. Since it is unlawful to take or destroy the property of others without their permission, individuals must engage in voluntary exchange to acquire the goods and services they desire. Market economies encourage us to serve the needs of others in order to receive the resources that will fulfill our own desires.

Economist Deirdre McCloskey identified many of the positive virtues that market systems foster. The content on the next two pages was influenced by her ideas. One major reason for the differences between market and nonmarket values is that markets are based on self-interested behavior and voluntary exchange. Markets create incentives that encourage you to serve others in order to benefit yourself.

ACTIVITY 4.1 (continued)

FOUNDATIONS OF MARKET VALUES

COMPETITIVE MARKET VALUES

Discipline: By stressing self-interested behavior, market systems encourage individuals to discipline themselves to produce the goods and services others want. Producing the goods and services demanded by others is rewarded.

Honesty and Trustworthiness: While market systems are susceptible to occasional scams and schemes, most businesspeople recognize that being honest and trustworthy with their customers will benefit their business over the long term. Customers will not continue to buy goods and services from people who cheat and lie to them.

Tolerance: Market systems tend to reward people who make good business decisions rather than decisions based on race, religion, gender, sexual orientation and other nonbusiness factors — in other words, people who judge employees on merit and sell to all customers who want to buy.

Cooperation: Cooperation is seldom identified as a basic characteristic of market systems. But market systems require substantial cooperation to produce the extraordinary achievements that we regard as ordinary. For example, how does a car with parts from 10 countries, hundreds of suppliers and thousands of distributors come to be sold in small towns? The act of producing and distributing cars (and other goods) requires extensive cooperation among strangers.

NONMARKET VALUES

Discipline: Nonmarket systems depend on tradition or force to encourage individuals to produce the goods and services others want. Failure to produce can lead to loss of respect or to miserable living conditions.

Honesty and Trustworthiness: Nonmarket systems rely on tradition or force to encourage people to be honest and trustworthy. Tradition and force often prove to be unsatisfactory, and over the long term people become inclined to trust only family members and friends. It is hard to maintain business relationships when customers can't influence the behavior of firms.

Tolerance: Nonmarket systems rely on tradition or force to encourage individuals to be tolerant — if these systems encourage tolerance at all. Here, too, tradition and force often prove to be inadequate or worse: People may use tradition and force in support of hatred, or hatred may be unleashed as soon as external constraints are relaxed.

Cooperation: Nonmarket systems rely on tradition or force to encourage individuals to work together. Joseph Stalin, for example, deliberately distributed manufacturing and agricultural enterprises across the former Soviet Union to force people from diverse ethnic backgrounds to cooperate with each another. As soon as the threat of force was removed under Mikheil Gorbachev, the Soviet Union collapsed. Cooperation created by coercion lasted for decades, but it could not be sustained.

ACTIVITY 4.1 (continued)

FOUNDATIONS OF MARKET VALUES

COMPETITIVE MARKET VALUES

Courtesy: Market systems encourage people to be courteous because it is in their self-interest to be courteous. Customers do not like to deal with businesspeople who are rude or disrespectful. Some are rude or disrespectful anyway, of course — as long as they can hold onto their jobs or keep their businesses afloat. But over the long term, markets reward civil behavior, and businesspeople seek these rewards.

Enterprise: Market systems provide large rewards for inventive and innovative business leaders. People who are not afraid of change and willing to take risks are materially rewarded. As a result, new goods and services appear continually.

Responsibility: With their emphasis on self-interested behavior, market systems tend to focus on the individual and individual actions. The threat of individual failure is sobering, and it tends to encourage people to act responsibly.

Accountability: Markets provide people with both the incentives and information to be accountable to the concerns of others. People can compare firms on the basis of the price and quality of their products.

NONMARKET VALUES

Courtesy: Nonmarket systems depend on tradition or force to encourage individuals to produce and sell the goods and services others desire. In this context, indifference or antipathy toward consumers is a persistent problem. Security guards in communist countries were assigned to many department stores. The guards were not there to protect the stores against thieves. They were there to protect the store clerks from customers who often became outraged by the clerks' surly, hostile attitudes.

Enterprise: Nonmarket systems tend to reward people for following the rules. "Follow the manual" might be the motto. Following the manual rarely results in inventions or innovations.

Responsibility: Nonmarket systems depend on tradition or force to encourage individuals to act responsibly. Shirking and cheating are often respected. People who get caught may be faulted merely for not having been smart enough to shirk and cheat and get away with it.

Accountability: Nonmarket systems are less accountable because there are no profits and the government sets prices. People often have a difficult time obtaining information from the government.

Source: Deirdre McCloskey, "Bourgeois Virtue," *The American Scholar* (Spring 1994): 177-191

ACTIVITY 4.1 (continued)

FOUNDATIONS OF MARKET VALUES

Directions: Use the information in the reading to write the answers to these questions.

1. According to this reading, what is the first economic freedom in a modern market system?
2. Slavery is often regarded as a market institution. After all, it involved many of the characteristics of a market including ownership, prices and exchanges. Do you agree that slavery was a market institution? Explain your answer.
3. How might owning and operating a restaurant encourage values such as honesty, enterprise and courtesy?
4. How might owning and operating a shoe store encourage values such as tolerance and responsibility?
5. How does the construction of a new home encourage cooperation among strangers?

