Lesson 5 — What Are the Moral Limits of Markets?

The students brainstorm ways to allocate a scarce good and then discuss the moral advantages and limitations of markets for solving resource-allocation problems.

OVERVIEW

Economics
In a world of scarcity, competitive markets provide powerful incentives for companies to develop better products, find lower-cost methods of production and produce the goods and services consumers demand. Markets also promote voluntary cooperation, prosperity and freedom. In the absence of market failures such as externalities and public goods, markets promote efficiency.

Ethics
Markets are efficient, but other things matter too; and some goals might be better served by imposing limits on markets. For example, loyalty and cohesion are very important to family and social groups, but these cannot be bought or sold. Concerns about justice and virtue also lead people to recognize markets have limits and not everything that can be for sale should be for sale — for example, votes, babies and grades. Most people recognize that good citizenship requires virtues in addition to self-interest.

LESSON DESCRIPTION

The lesson begins with the students brainstorming ways to allocate a scarce good within a small group. Then they evaluate market and nonmarket mechanisms for allocating goods and services. This leads to a discussion of the moral limits of markets. The students then read and discuss an article by Paul Heyne, who examines moral criticisms of markets and explains why morality is necessary for markets to work. Finally, the students apply this information to debate the moral limitations of markets.

CONCEPTS

Civic virtue
Coercion
Competition
Corruption
Efficiency
Markets
Scarcity
Self-interest

CONTENT STANDARDS

3. Different methods can be used to allocate goods and services. People, acting individually or collectively through government, must choose which methods to use to allocate different kinds of goods and services.

5. Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

OBJECTIVES

The students will:

1. Evaluate market and nonmarket methods for allocating goods and services.

2. Describe and analyze the benefits of market transactions.

3. Describe and analyze the main arguments for the moral limitations of markets.

TIME REQUIRED

75 minutes

MATERIALS

1. Visuals 5.1 and 5.2

2. One copy of Activities 5.1 and 5.2 for each student

3. One candy bar or other desirable item that can be divided easily for each group (see Procedure 1)

PROCEDURE

1. Divide the students into groups of three to five. Display a desirable object such as a candy bar that can be divided easily. You could also use a healthy nutrition bar, a coupon for five extra-credit points or a homework pass. Ask the class how many students would like to have this item today. Assure them that this is not a trick question. You are willing to give them the item and, indeed, each group will receive one of these items today.

2. Explain to the students that this item is scarce because it is limited and the students in the class desire it. Tell them scarcity is a condition we face in every aspect of our economic lives. Individuals and societies must devise ways to deal with this problem, which is exactly what the class will be doing today. Assure the students that you have only a limited number of items to distribute: one per group. There are no more, for example, hiding behind your desk.

3. Ask the students to brainstorm answers to this question: "What are the various ways you can think of for allocating this item in your group?" Emphasize that they should think creatively. Give them up to five minutes to brainstorm. Then ask the students to share suggestions from their brainstorming. Write the suggestions on the board. It is very important not to discourage any answers.

4. After you have gotten all the suggestions, write the name in parentheses of the type of allocation, such as rationing, lottery, first-come/first-served, favoritism, brute force and the market. Here are some examples:
   - Divide the item equally among all the students in the group. (Rationing)
   - Draw straws or roll dice to determine who gets the item. (Lottery)
   - Have a race and the winner gets the item. (Favoritism based on achievement)
   - Give the item to the student who is hungriest or has the lowest grades. (Favoritism based on need)
   - Give the item to the student with the highest grade. (Favoritism based on achievement)
   - Have a fistfight and the winner gets the item. (Brute force)
   - Allow one student to offer others in the group a cash payment for the item. (Market)
   - Give the item to the person who needs it most. (Favoritism based on need)
   - Give the item to the first person who asks for it. (First-come, first-served)

   If the students' suggestions don't cover all the allocation methods, elicit the missing ones so that all the methods are represented on the board.

5. Tell the groups that they will have five minutes to consider the positive and negative aspects of each allocation option and decide who in their group will get the item. For example, a positive aspect of rationing and a lottery is that both treat everyone equally; however, this may not be fair if some people did more to deserve the good. Also, these allocation methods do not encourage greater effort, since everyone in the group is treated equally, regardless of effort. A positive aspect of favoritism is that scarce goods can be allocated to the people who are most in need — for example, the poor. Favoritism creates opportunities for bribery, however, so the people who are most in need may never get the goods. A positive aspect of competitive markets is that firms produce goods efficiently and sell them to the people who

place the greatest value on them. But this method may exclude people who don't have the means to pay.

6. Ask a spokesperson for each group to explain which allocation method it used and how the group decided who would get the item. Which criteria were important in making the final decision: Fairness? Favoritism? Efficiency?

7. Distribute the items based on the groups' decisions. (**Note**: If a group decides to use brute force, you may want to intervene. If a group fails to make a decision in the time allowed, allocate the item by lottery.)

8. Tell the students that, just as they had to decide who would receive a scarce good, an economic system must determine which goods and services to produce, how to produce them and who receives them. People make millions of allocation decisions every day. Tell the students that all types of allocation methods are in operation in various ways in our society.

   For example, more than 70 percent of the U.S. gross domestic product is consumer spending: Markets and prices determine which goods are produced and who buys them. Then families generally allocate scarce goods by rationing (we divide pizza slices equally at the dinner table). While brothers and sisters sometimes fight over allocations, brute force is most often used by robbers or by pirates. Selective colleges use favoritism based on achievement to determine which students to admit. Most colleges also use a lottery to determine housing allocations on campus. Many popular dance clubs and restaurants use first-come/first served, which explains why popular attractions have long lines. In times of war, society has used lotteries to draft people into the armed forces. Some products are banned (rationing with zero distribution).

9. Give each student a copy of Activity 5.1. Review the situations in which societies use nonmarket allocation methods to deal with problems of scarcity. Point out that some market transactions are inconsistent with human dignity while others permit people to take unfair advantage of others *(coercion)*. Times of emergency tend to affect people emotionally, so fairness becomes a greater concern than efficiency. Some goods or services should be illegal even if a person can pay for them. Moral goods (love and friendship) and civic goods (votes) are degraded unless people give them freely without a price. It would be immoral to sell certain things such as babies or grades in the market.

10. Tell the students that there are problems with each of the nonmarket allocation methods discussed in Activity 5.1. For example, suppose one student, Frank, really loves rock climbing, while all the other students are indifferent to it. Distributing a rock-climbing trip by using a random lottery would likely produce waste if someone wins — say, Jody — who doesn't like climbing. Treating people fairly sometimes requires acknowledging differences. Most people would say that allowing Jody to sell the rock-climbing trip to Frank (using the market) is more fair and efficient (less wasteful).

    Ask the students: "How would allocating rock-climbing trips based on price (and not by lottery) alter the outcome?" ***It would mean that someone who values the trip most highly (Frank) will likely get to go. If Frank does not have the money to pay for the trip, then a lottery gives him a slightly better chance this time. However, a market system provides Frank with the opportunity to earn the money he needs by working. The harder his effort, the greater his chance of going because he can control his work and determination, but he cannot control a lottery. So in the long run, a market system provides Frank with a more reliable method of being able to enjoy the things he values most.***

11. Ask: "Would it be fair to give everyone in this class the same grade regardless of performance? What effect would this have?" ***It is not fair because the students who work hard receive the same grade as the students who do not. Grades no longer serve as an incentive to motivate behavior. Student effort and achievement would likely fall because they aren't rewarded.***

12. Ask: "How do prices and wages in the market similarly act as incentives to alter behavior?" ***High prices encourage people to conserve and to discover alternatives. Workers' desire for higher wages encourages them to work harder and invest in education. If firms gave all workers the same pay, the workers would have far less incentive to be courteous to clients, to produce efficiently and to care about consumers' desires.***

13. Display Visual 5.1. Tell the students that in the United States we often use competitive markets to allocate resources because markets provide us with greater opportunities for enjoying rock climbing and other things we enjoy most. Markets reward effort and invention. Competitive markets can align personal interests with social interests because prices are the incentives that reward desired behaviors. Go over the moral and practical advantages of markets listed on the Visual for consumers and producers.

14. Tell the students they are going to explore in more detail the moral advantages and disadvantages of markets. Give everyone a copy of Activity 5.2. Tell the students to read it as homework and bring the answers to the questions to class the following day. (You could assign the essay as in-class reading, but this will take considerable time.) Paul Heyne wrote the essay as a defense of markets against many moral criticisms. He also explains why morality is necessary for markets to work.

15. Discuss the answers to the questions on Activity 5.2.

Question 1: Is self-interested behavior the same as selfish behavior? Why? ***Paul Heyne argues that it is true only if someone's interests are selfish. In fact, a person can benefit from markets only if he or she appeals successfully to the interests of others. (See Lesson 2 for an extended discussion of this topic.)***

Question 2: Would competition end if the government allocated all goods and services instead of relying on markets? ***Heyne argues that as long as there is scarcity, there will be competition. The real question is what forms competition will take. Allocating resources through government is usually more wasteful than using markets.***

Question 3: Would an economy that banned money be more moral than an economy with money? ***People are not motivated by money itself but by what money will buy. Money is the most effective way to adjust incentives. Money may tip the scales, but this does not mean that people are selfish or that they do everything for money.***

Question 4: Are poor people better off in a market system or in a system dominated by government? ***The author argues that the poor receive less income than the rich in a market system; but markets provide the greatest benefits to the poor, who are even worse off in a government-dominated system. This is because power is generally tightly controlled by a few. Poor people have not flourished in government-dominated societies.***

Question 5: Why do some people give presents and not money on birthdays and holidays? ***Markets are not as important in personal relationships, and giving gifts is a personal act. Love may be a purer motivation than self-interest, but love is not always present in all relationships. The advantage of the market is that it encourages social***

cooperation when relationships are not personal.

Question 6: In what ways do the impersonal transactions of the market promote social cooperation? ***Examine the production and distribution of any product. Thousands of people may be involved, and they may have different cultures, languages and religions and live in different places. Because markets create incentives, impersonal market transactions have expanded our ability to provide each other with healthful food, comfortable shelter, rapid transportation, remedies against disease and a more comfortable life.***

Question 7: Why are moral principles necessary for markets to work effectively? ***Markets depend on voluntary exchange. If you cannot trust others, it is difficult to make voluntary transactions. Although markets are impersonal, they reflect the moral foundations of a community.***

CLOSURE

16. Display Visual 5.2 and discuss why the students agree, disagree or are uncertain about the statement, which supports moral limits of markets. In discussing the statement, focus on what these moral limits, if any, might be. Also discuss whether markets or alternatives to markets are more effective in promoting ethical standards in a society.

• Are some goods and services too valuable to trust to markets? Which moral and civic goods are damaged or corrupted if people buy and sell them for money?

• Which moral and civic virtues do markets promote? Would government do a better job of promoting ethical values in society with price controls and rationing? What are the moral limitations of government intervention?

The bottom line: Most people agree that competitive markets efficiently allocate private resources and foster social cooperation among people who don't know each other. Yet critics believe that in certain circumstances markets corrupt moral and civic virtues. The debate comes down to the morality of markets and the moral implications of alternatives to markets.

ASSESSMENT

Multiple-Choice Questions

5.1 Based on "Moral Criticisms of Markets," which of the following statements would Paul Heyne support?

A. Markets promote selfish behavior.

B. Markets promote social cooperation among strangers.

C. People do everything for money.

D. Competition corrupts society.

5.2 Which of the following statements is a moral criticism of markets?

A. Markets promote an inefficient allocation of resources.

B. Market transactions are voluntary.

C. Markets are more coercive than governments.

D. Markets may corrupt civic virtues.

5.3 Which of the following allocation methods is most efficient and most responsive to the preferences of consumers who have income to spend?

A. First-come/first-served

B. Markets

C. Government

D. A lottery

Essay Questions

5.1 Karl Marx was the major proponent of communism (central planning by the government). A famous paraphrase of Marx is: "From each according to ability; to each according to need." Explain this quotation using moral theory. Do you think Marx was correct in condemning market activities? ***Marx focused on communal bonds and obligations. He correctly noted that in social groups there is a strong***

instinct for fairness. Family groups, for example, practice his motto of providing to each member according to need and asking of each member according to ability. Marx made a mistake in extending this idea to the nation as a whole. Marx argued that people will work for the good of the country and that monetary incentives should not matter. Communism tried to ignore the role that markets play in spurring production and productivity among strangers. Competitive markets allow freedom for both consumers and producers and promote virtues of honesty and responsibility. Communist countries failed to significantly improve the economic conditions of their people. Most people were poor, and government leaders were rich. Central planning and state ownership of the means of production resulted in coercion, mismanagement of resources, widespread corruption and a huge loss of freedom. More people died from hunger and murder by government under communism than under any other ideology.

5.2 List and explain the moral limitations of markets. Explain why you agree or disagree with these limits. ***Competitive markets solve problems of efficiency for consumers with incomes to spend. Markets don't provide for people who don't have money. Markets also can't fund public goods such as national defense. Other things matter besides private efficiency. Primarily, these include behaviors that respect the duties and obligations we have to each other in close relationships or as members of groups. Additionally, society expects fiduciary duties toward people who are vulnerable. In times of crisis, society demands shared sacrifices as a duty of citizenship. The second part of the question is opinion; make sure the students support their opinions.***

GOING FURTHER

Markets and Morality: For an article that discusses why markets are moral, see Peter J. Hill, "Markets and Morality," available online at http://www.perc.org/perc.php?subsection=10&id=820

Moral Limits of Markets: For an article that discusses the moral limits of markets, see Michael J. Sandel, "What Money Can't Buy: The Moral Limits to Markets." This article is one of the Tanner Lectures available online at http://www.tannerlectures.utah.edu/lectures.html (use the alphabetic index in the left column to search for Sandel).

Brute Force in Allocation: For an example of brute force being used in allocation, see "Three Nations Coordinate Flights to Spy on Malacca Pirates," *The Christian Science Monitor*, August 17, 2005, at http://www.csmonitor.com/2005/0817/p10s01-woap.html

Paul Heyne: Paul Heyne was a gifted economics teacher at the University of Washington whose textbook, *The Economic Way of Thinking*, went through nine editions between 1973 and 1999. In the textbook, he presented economics as a method of thinking rather than "bits and pieces of technique." In the introduction to the book, he asks students "to master a set of concepts that will help them think more coherently and consistently about the wide range of social problems that economic theory illuminates." Heyne died in 2000. In 2006 Prentice-Hall published a revised edition of *The Economic Way of Thinking* by Peter J. Boettke and David L. Prychitko.

- To hear Heyne's final lecture, "The Moral Critics of Capitalism," which he delivered at the University of Washington-Seattle on February 17, 2000, go to http://ia300113.us.archive.org/2/items/heyne/Paul_Heyne-last_lecture-2000_February_17.mp3
- To hear the question and answer session that followed Heyne's lecture, go to http://www.archive.org/details/paulheyne

VISUAL 5.1
USING MARKETS TO DEAL WITH SCARCITY

Competitive markets generally align personal interests with social interests. Here are the moral and practical advantages of markets:

For consumers, competitive markets

- promote freedom of individual choice.
- treat equally customers with the same ability to pay.
- use prices to encourage conservation.
- provide for a reliable supply of private goods.
- use prices to eliminate shortages and long lines.
- improve living standards by providing better products at lower prices.

For producers, competitive markets

- promote freedom of individual action.
- rely on voluntary actions, not coercion.
- reward creativity in problem solving.
- promote cooperative behavior globally.
- encourage moral virtues such as hard work, honesty and thrift.
- align self-interest with efficiency at satisfying consumer desires.

VISUAL 5.2
MARKETS AND VALUES

Is this statement true, false or uncertain? Why?

"If we primarily rely on market exchanges to allocate resources, we will lose the values necessary to maintain a humane and just society."

ACTIVITY 5.1
THE LIMITATIONS OF MARKETS

Family and community relationships are the glue that holds societies together. Everyone in the group is generally expected to treat everyone else fairly, to respect human dignity and to fulfill mutual obligations. Sometimes using prices to allocate goods may violate deeply held moral and civic norms. For example, civic goods such as votes are degraded unless people give them freely instead of selling them.

Society tends to use nonmarket solutions — rationing, first-come/first-served, favoritism and lottery — to deal with scarcity when community values other than efficiency are paramount. Here are some situations in which markets may not be appropriate to allocate goods and services.

Close Personal Relationships: Family members and close friends have duties and obligations to each other. Benevolence and fairness are voluntarily given and usually expected. Selling love or friendship to the highest bidder debases these concepts. In these circumstances, scarce goods are generally shared or allocated based on need.

Social Groups: Individuals in social or civic groups such as schools, clubs and places of worship in which identity is conferred by membership have duties and obligations to each other. Once someone is selected as a member of the group, he or she is usually accorded equality; fairness is demanded. In these situations, people usually allocate scarce goods by rationing or lottery.

Times of Crisis: During war, disaster or danger people are strongly reminded of their common membership in society. Society expects everyone to do his or her civic duty, to share and sacrifice for the common cause. No one, for example, should be allowed to buy his or her way out of a draft. In times of crisis, rationing is often employed to allocate scarce goods.

Vulnerability: In some transactions, one participant is vulnerable: a child, an elderly person or a sick person. These transactions may be exploitative rather than mutually beneficial. People in a community generally uphold a duty to protect the vulnerable, so society often regulates or prohibits market transactions that involve minors or others who are unable to make informed decisions.

ACTIVITY 5.1 (continued) THE LIMITATIONS OF MARKETS

Vices: Society tends to discourage or even ban activities that are thought to degrade important institutions in society. The sale and purchase of sex through prostitution weakens family ties, the sale of grades demeans the educational system and the purchase of a prison parole diminishes confidence in the rule of law.

Equality: Social goals may include equal opportunity for all as a basic right of citizenship. This could require communities to raise and redistribute funds so that education, health care and other services can be allocated based on need, not ability to pay.

ACTIVITY 5.2
MORAL CRITICISMS OF MARKETS

By Paul Heyne
The Senior Economist 10, no. 4, (April 1995)

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 that 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 the students' questions? The claim that behavior in markets is distinguished by selfishness makes no sense.

ACTIVITY 5.2 (continued)
MORAL CRITICISMS OF MARKETS

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 a 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 she or he would choose to have if she or he 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.

ACTIVITY 5.2 (continued)
MORAL CRITICISMS OF MARKETS

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 fund 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 moneyless 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 that we want? Suppose we have too many people who want to drive buses, for

ACTIVITY 5.2 (continued)
MORAL CRITICISMS OF MARKETS

". . . the offer of additional money is by and large the most effective way to adjust incentives appropriately."

example, and too few people who want to service telephone lines? What could 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 (and less) money. Those who complain about the predominant role of monetary motives in 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 tone of responsive action.

An Uncaring System

Sometimes the language of the critics suggests that they are objecting not so much to the actions 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

ACTIVITY 5.2 (continued)
MORAL CRITICISMS OF MARKETS

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 in 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

ACTIVITY 5.2 (continued)
MORAL CRITICISMS OF MARKETS

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.

"The institution of money enormously expands the number of people on whose assistance we can reliably count . . . ."

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 the need of the cooperation and assistance of great multitudes," and that we cannot expect to obtain cooperation or assistance exclusively from their benevolence 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

ACTIVITY 5.2 (continued)
MORAL CRITICISMS OF MARKETS

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 else" 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 make 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 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 foundations of modern life.

There have in fact been massive experiments in this [twentieth] 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 one in 1989 on these experiments. Market systems do not produce heaven on

ACTIVITY 5.2 (continued)
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earth. But attempts by governments to repress them have produced in the twentieth century something very close to hell on earth.

The Moral Foundations 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 provide 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 foundations 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.

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Questions

1. Is self-interested behavior the same as selfish behavior? Why?

2. Would competition end if the government allocated all goods and services instead of relying on markets?

3. Would an economy that banned money be more moral than an economy with money?

ACTIVITY 5.2 (continued)
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4. Are poor people better off in a market system or in a system dominated by government?

5. Why do some people give presents and not money on birthdays and holidays?

6. In what ways do the impersonal transactions of the market promote social cooperation?

7. Why are moral principles necessary for markets to work effectively?