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"Morality and Markets: The Humane Balance"

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Introduction

Nikolai Lenin said that when the time came to hang the capitalists, they would trip over each other to sell the communists the necessary rope. One is reminded also of the similar recent case of a Canadian mining firm whose owner in order to keep the business worked with Castro and generously donated money to his Young Communist League. And currently, we have the example of capitalists, including former high-ranking government officials, blithely trading with Communist China despite its human rights violations and aggressive military build-up. What do these examples have in common? They illustrate the effect of actions based on self-interest alone, self-interest turned loose from any anchor in morality or community values, thus proving it is not an adequate basis of economic or social organization.

The solution of the problem, of course, is not embracing any form of collectivism. Rather, it lies in limiting the sphere of legitimate market activity

so that it harmonizes with the rest of the community and with other values and indeed with itself. As will be argued here, in a properly understood sense, market limitation is a logical necessity. It is akin to the problem of political liberty which James Madison identified in Federalist No. 63 that "liberty may be endangered by the abuses of liberty as well as by the abuses of power...." What is true of political liberty here is also true of economic liberty.

To protect the market system against these destructive abuses, a commitment to permanent values is required by market participants, both consumers and producers, and in the form ideally by what German economist Wilhelm Roepke called a "terror regime of decency" as well as by a public policy rooted in that decency. To do this, I want to consider the market with some of its blemishes and issues relating to the role of moral values. There are three inter-related aspects to emphasize: (1) the failures of pure self-interest; (2) the nature of the relationship between market activity and morality; and (3) the question of the end-state vs. proceduralist views.

The Failures of Pure Self-Interest (Social Traps)

A market economy is based on the assumption that the collective result of individuals pursuing their own self-interest is good. Adam Smith is famous for his dictum that we do not expect our meat from the benevolence of the butcher but from a regard for his own interest. Precisely so. Yet, the fact remains that this assumption is not always valid. Many of the present policy problems are the direct outgrowth of a dogmatic version of this truth maintained even in the face of counter-examples which Adam Smith would have been the first to recognize.

Consider three cases. In a depression as each employer tries to survive in the face of a diminishing demand, consulting only his self-interest, he lays off employees. But if all or a large number of employers do that, total demand declines even more and so requires more lay-offs. The collective result of the individual decisions is unwanted even though each decision-maker helped bring it about. Similarly, in the familiar case of a "run on the bank" of by-gone days, one or a few withdrawals was not a problem, but if all or many suddenly withdrew their deposits the results were disastrous for the bank, a result no one wanted but which each one helped bring about. And as a final example, if we accept Talbot Page's analysis, entrepreneurs try to evade (externalize) costs whenever they can by exploiting weaknesses in the property rights system, especially in their choice of technology. In the current jargon, they try to socialize costs while, of course, still privatizing benefits. This means passing

the costs off onto the environment, the general public or the taxpayer. Cost avoidance is arguably an important aspect of the firm's idea of "efficiency" but it is obviously not consistent with the economist's definition of price efficiency which requires that the price reflect all of the relative benefits and costs. Thus, a higher product price may be the more efficient one. However, as each entrepreneur evades costs as he pursues only his own self-interest, the cost "efficiency" of his firm may go up, but as other firms in the industry follow suit, the efficiency of the market goes down.

To conclude this first point, if we are told that we are to maximize our self-interest in each specific transaction and that we are not to look out for the other guy or the common good and other intangibles, then it is not surprising to see not only how the failures described above came about, but also how they, or many like them, are maintained. And if we further tell people, as one George Mason University economist did to college students not long ago, that greed, in the sense of getting more things for oneself, is the noblest human motivation, then we cannot but believe these failures will grow worse in both frequency and intensity. And the success of this propaganda may be the biggest market failure of them all. If pure self-interest is not always beneficial or rational collectively, we must rely on something more.

Markets Presuppose Morals

Fortunately, not all economists are so dogmatic that they are unable to see the issue correctly. The late Fred Hirsch showed how the market economy succeeded being based on a pre-capitalist morality, which by its increasing orientation to self-interest (i.e., private-oriented behavior) at the expense of communal and public good, also undermined that foundation. "The system," writes Hirsch, "operated on social foundations laid under a different order of society." But today "...it erodes the social foundations that underlie a benign and efficient implementation of the self-interest principle operating through market transactions" (*Social Limits*, p. I 1). More fully he writes:

"The social morality that has served as an understructure for economic individualism has been a legacy of the precapitalist and preindustrial past. This legacy has diminished with time and with the corrosive contact of the active capitalist values - and more generally with the greater anonymity and greater mobility of industrial society. The system has thereby lost outside support that was previously taken for granted by the individual. As individual behavior has been increasingly directed to individual advantage, habits and instincts based on communal attitudes and objectives have lost out ." (*Social Limits*, pp. 1 17-1

18).

In other words, Hirsch sees another kind of social trap but one which doesn't just undermine a particular market but the entire free market system.

While there are undoubtedly many reasons for this, I will touch on only three. First, in so far as our national policy has been and is a commitment to endless or indefinite increases in per capita consumption, it has been a policy affirming and promoting discontent. And though in times past there was good reason to be discontent with the economy, the danger lies in cultivating it as a habit of mind that is difficult, if not impossible, to limit just to economics. Instead, it spills over into the social and moral spheres.

Secondly, correlated with increasing levels of consumption (discontent) is the problem of technological change. If change is too rapid and inappropriate, and in some cases, flatly immoral, it renders not only skills obsolete, which is itself demoralizing, but also entire ways of life, including the continuity we need by remembering our past, by tradition, by the wisdom and experience of parents and grandparents. Thus, individuals are left bobbing on an ocean of change without solid connections to an enduring community.

Thirdly, the increasing commercialization of the arts, sciences, sex, indeed every private and higher aspect of life, especially embodied in advertising, appeals to, and thereby promotes and affirms our vanity, lust, ambition, and greed. It can hardly be maintained that in such a deracinating atmosphere our characters are left unaffected.

All this contributes to that "sinking in of the moral being" in Yeats' phrase that comes with a loss of belief in higher values, virtue and morals. One result of this loss in turn is bitterness, and bitterness is always self-destructive.

Strikingly similar to Hirsch, Wilhelm Roepke pointed out "historical liberalism," and with it especially nineteenth century capitalism, failed to see that competition was not a harmless activity either morally or psychologically but was something, he argued, that had to be kept in bounds if one wanted to avoid poisoning the rest of society. The failure to understand this, he explained, was due to the peculiarly naïve and optimistic belief: "...that a competitive market economy, based on division of labor, was an excellent moral academy which, by appealing to their self-interest, encouraged men to be pacific and decent, as well as to practice all the other civic virtues. While we know today...that competition reduces the moral stamina and therefore requires

moral reserves outside the market economy..." (*Social Crisis*, p. 52). Years later he emphasized the same point again:

"The market economy is a constantly renewed texture of more or less short-lived contractual relations. It can therefore, have no permanence unless the confidence which any contract presupposes rests on a broad and solid ethical basis in all market parties. It depends upon a satisfactory average degree of personal integrity and, at the margin, upon a system of law which counteracts the natural tendency to slip back into less-than-average integrity...the ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously...These prerequisites must be furnished from outside, and it is, on the contrary, the market and competition which constantly strains them, draw upon them, and consume them." (*Humane Economy*, pp. 125-6)

In figurative terms, the same explosive force of self-interest that powers the economic engine, also breaks it down, requiring interventions of adjustments and tune-ups.

To be humane as well as economically effective, self-interest must be channeled and limited by the adherence of market participants to meta-economic values and that means, among other things, that we must have an idea of the end-state, the good society (which is not to be confused with utopias, either of the libertarian or Marxian variety)

Values and the End-State

At the root of this problem is the belief among the self-interest-is-enough school of economics, that values and morals are purely subjective and therefore relative either to individual preferences and tastes, or to currently dominant but more or less ephemeral social prejudices and habits. This moral subjectivism/relativism is an essential ingredient in one of the two dominant schools of liberal thought which in current jargon are described as end-state liberals or procedural liberals. Norman Barry perhaps defines the proceduralist school most succinctly when he states that "...procedural liberalism precludes the imposition on a people without their consent of any political end-state, including, of course, a liberal one" (Peacock and Willgerodt, p. 112). So, the proceduralist liberal says it's okay to end up in hell, so long as one does it

"properly," that is, according to his (subjective) notions of rules (such as free unanimous consent).

While there are ways to hedge on this, ultimately this is nihilism. It is nihilistic to be indifferent to whether the free market is preserved or not, whether a free government is preserved or not. It is nihilistic to say anything goes so long as it's done "freely." It implies a deification of man that claims whatever he wills, collectively or individually, is all right and there is no objective value to judge or check it, nothing to validate or condemn it. To use Roepke's phrase, it is an "intransigent dogmatism" that condemns "itself to death with open eyes...a sort of gambling club whose rules include their non-observance" (*Social Crisis*, p. 50).

We ought to have understood the danger of this sort of thinking from the Weimar experience, as Roepke and others did. The Weimar Republic boasted it had the "freest constitution" in the world but the result of that total freedom was totalitarianism. The lesson learned was that procedures and rules themselves presuppose an enduring moral order, otherwise individuals will cheat on them in the familiar free-rider way. Here is another social trap, another failure of pure self-interest

This is the conclusion drawn by other members of the Ordo-liberal school of economic thought. They learned that the expression of sound legal and economic principles could not be left to the task of irrational political and "spontaneous" economic forces. They thus came to advocate, as Norman Barry writes, a socially responsible market economy which "rejects the argument that exchange itself generates an appropriate moral and welfare dimension... " (Peacock and Willgerodt, p. 108). They believed with Walter Eucken that "what experience of laissez- faire goes to prove is that the economic system cannot be left to organise itself" (ibid., p. 109). That organization involves, among other things, limitations on the freedom of contract if such a contract were, for example, to restrain competition. This was seen as only logical since it was based on the "legitimization of economic freedom in order to prevent this freedom from destroying its own prerequisites" (ibid., p. 149).

Conclusion

The reason for many market and policy problems is the loss of those basic values and beliefs that would most effectively support the market. This problem is not removed by resorting to orthodox economics techniques and concepts, or by denying the problems exist, or by facile recommendations for

government limitations and privatization. It is rather by a restoration of those values among market participants and policy-makers, a restoration which begins with the admission that self-interest alone is self-destructive and proceeds to locate economic action in the proper place in the hierarchy of human goods and in the service of a vision of the good society. As Roepke's friend, Alexander Ruestow, put it:

'The social market economy must be the servant of humanity and of trans-economic values. All social, ethical, cultural and human values are more important than the economy, yet the economy must prepare the ground for their fullest development. For this reason the economy must not take on forms which are incompatible with these trans-economic values.' (Peacock and Willgerodt, p. 108)

Our present economy, contrary to some pro-market rhetoric, is hardly in a form compatible with "trans-economic" values. If we are not able or willing to recast it into such a form, we will not have to worry about communists hanging us with our own ropes...we will be doing it ourselves.

Sources

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