



# PERC Viewpoints

Political Economy Research Center

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## Markets and Morality

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In terms of sheer ability to provide goods and services, most people would agree that capitalism wins hands down when compared with alternative economic systems such as socialism. Even so, many critics of private property and markets prefer a more socialistic system or at least one that places more power in the hands of the government. They argue that although capitalism delivers the goods in a material sense, it doesn't deliver them morally. That is, capitalism doesn't satisfy certain basic standards of justice.

This *PERC Viewpoint* challenges that position by examining several areas where moral issues weigh in on the side of the market place. This is not an argument that a society based on free markets is the same as a moral society; people can behave morally or immorally in a free market system just as they can in other systems. However, capitalism does have a number of moral strengths that are lacking in other economic systems.

### Capitalism Defined

Although the "market" is often considered an alternative to central planning or state ownership of the means of production, it is not a rigid institutional order like socialism or communism. What we call capitalism or a free-market society is a society based upon private property rights. Individuals may own, buy, and sell property (including their own labor) if they do not do so fraudulently, and they are free to do what they want with their property as long as they do not harm others. Individuals may decide to exchange their property with others, thereby creating a market. This market process is not mandated by anybody and requires only a well-defined and enforced system of private property rights in order to exist.

Inherent in capitalism is the ability to: provide freedom of choice, encourage cooperation, provide accountability, create wealth for large numbers of people, and limit the exercise of excessive power.

## Freedom of Choice

A market system assumes very little about the ideal way to organize economic life. Other societies may mandate cooperatives, or communes, or cottage industries, or they may prohibit them. But a system of private property offers a wide range of possible forms of organization. If cooperatives are desirable, they can be used; but other forms for organizing production are also permissible. And, in fact, the individual who wishes to ignore the market or construct alternative institutional arrangements is perfectly free to do so.

Throughout history certain groups have chosen to operate largely outside the market. One such group, the Hutterites, lives in the northern Great Plains of the United States and Canada. The more than 200 Hutterite agricultural colonies have been remarkably successful in maintaining their identity and expanding their population. Yet they are far from capitalistic. All property within the Hutterite colony, except the most basic personal items, is owned in common. All income is shared equally within the colony, and no wages are paid for labor.

The Hutterites were able to establish their colonies without prior approval from anyone in society. No committee, government agency, or group of well-meaning citizens had to meet and decide if the Hutterite lifestyle should be allowed. The freedom to choose such alternatives is unique to a free-market society.

In contrast, a centrally planned society does not grant freedom to those who want to engage in market transactions. It limits voluntary trade in the interest of some other goal, and undoubtedly would constrain groups like the Hutterites if the people in power disliked the Hutterites' form of organization.

## Cooperation vs. Conflict

A free-market, private-property system usually is labeled competitive. Yet one of the major advantages of the market system is that it encourages cooperation rather than mere competition. Competition does exist in a market-based system, but competition is prevalent in any society in which scarcity exists.

In the marketplace successful competitors cooperate with, or satisfy, others in the society. In order to succeed in a private property system, individuals must offer a "better deal" than their competitors. They cannot coerce people to buy their products or services. They must focus their creative impulses and energy on figuring out ways to satisfy others. The person who does this best is the one who succeeds in the market. Thus, participants in a market economy—buyers and sellers—continually look for areas of agreement where they can get along, rather than concentrating unproductively on the areas of disagreement.

In contrast, under a collective order, rewards frequently come from being as truculent and uncompromising as possible. With collective decision-making those in stronger political positions have little reason to look for areas of agreement; generally, they have a better chance to succeed by discrediting the opposition to justify their own position, compromising only when others are strong.

A good example of the dissension caused by collective decision-making is the controversy over teaching the origins of mankind. School boards—which must make collective decisions—generally have to decide to teach either that human beings were created or that they evolved. Such decisions are fraught with conflict. People who disagree with the board's decision march, write letters to the newspaper, lobby, hire lawyers, and, in general, become quite exercised. This is almost inevitable when highly emotional issues are involved since any collective decision, including one made by majority vote, is likely to be contrary to the wishes of the minority. Thus, the decision-makers are in a no-win situation. If the board allows creationism to be taught, evolutionists will be irate. If they decide to teach evolution, creationists will be outraged.

In contrast, consider the decision to be vegetarian or carnivorous. There are individuals who feel every bit as strongly about this issue as those involved in the origins-of-mankind debate. Nevertheless, there is little chance that a decision about diet will generate public controversy. Diet is not determined by a collective decision-making process, so people can interact rather peacefully about it. The person who believes that avoiding meat is healthier or morally correct can pursue such a diet without arguing with the meat eater. Advocates of a meat diet can find producers and grocery stores eager to satisfy their desires. In fact, vegetarians and the meat eaters can shop at the same stores, pushing their carts past each other with no conflict. It is the absence of collective decision-making that permits this peaceful proximity.

The social harmony that results from a market order should be of great interest to those concerned with moral issues. People of very different cultures, values, and world views can live together without rancor under a system of private rights and markets. A market order requires only minimal agreement on personal goals or social end-states.

In contrast, alternative institutional orders are more oriented towards centrally determined goals. The very existence of such orders requires a more general agreement on what is "good" for a society. A centrally planned system not relying on willing exchange of work for pay must direct individuals to labor to achieve certain ends, and those ends are not necessarily the same as workers or consumers would choose freely. For instance, in the Soviet Union very little freedom is allowed in occupational choice, and once one has been assigned a job it is very difficult to move to a different one.

### **Accountability**

Another reason that a system based on private property rights encourages social harmony is that it holds people accountable for what they do to others. Under a private property regime, a person who injures another or damages another's property is responsible for the damages, and courts enforce this responsibility. The mere knowledge that damage must be paid for leads people to act carefully and responsibly. When people are accountable for their actions, individual freedom can be allowed.

In contrast, a centrally planned system holds individual far less accountable. Although in theory the government is charged with enforcing people's rights, rights are ill-defined and the government can and does respond to the wishes of powerful people with little regard for the

rights or wishes of the powerless. Even in democracies, if government has the power to grant favors, powerful groups try to use the government to take what they want. What they take may have been worth far more to those from whom it was taken.

### **Zero-Sum vs. Positive-Sum Views of the World**

Many objections to private property hinge on income distribution. Well-intentioned people often think that it is unfair for some to live in luxury while others have very little. I am sympathetic to the view that the affluent are morally obligated to share their wealth with those who have less. But that doesn't mean that the state is the appropriate agency for such redistribution.

A significant number of people who object to the relative position of the wealthy do so because of a basic misapprehension about where wealth comes from. They believe that those who live in luxury do so at the expense of others who live in poverty. In general this is not true.

The world is not zero-sum. That is, the wealth of the world is not limited so that it has to be divided up among everybody, with some people getting more and others getting less. While wealth can be obtained by taking it from others, wealth also can be created by properly motivated human action. When that happens, wealth represents a net addition to the well-being of society. The significant increases in per capita wealth since the Industrial Revolution have come about primarily through the creation of wealth, not by taking from others.

Under a set of well-defined and enforced property rights, the only transactions people engage in are "positive-sum" or wealth-creating transactions, those that occur because all parties to the transaction believe they will be better off as a result. In a society where people have secure rights to their property, they will exchange property only voluntarily, and they will do so only when they see the potential for improving their situation. The people they are dealing with will do the same—engage in transactions only when they expect to be better off as a result.

A zero-sum world, where one accumulates more wealth solely by decreasing the wealth of others, occurs only in the absence of property rights. In such a world people—either by themselves as brigands and thieves or through the use of governmental power—can obtain command over resources without obtaining the consent of the owners of the resources.

Some critics argue that many market transactions are not voluntary, that some people are forced by circumstances to enter into transactions they don't want. For instance, they argue that an employer is exploiting workers by hiring without coercion, the acceptance of such an offer means that no better wages are available. Indeed, the employer is expanding the opportunities for the unfortunate. A law mandating a \$4.00 minimum wage, for example, actually decreases the opportunities for those whose work is worth only \$2.

The only way a government—as opposed to the private sector, which acts through voluntary giving—can help these people is to give them wealth that it takes from someone else. Yet the

fact that wealth usually has been created by its owners, not taken from others, weakens the moral case for such redistribution. A person whose creative effort adds to the stock of wealth without decreasing the well-being of others would seem to have a moral claim to that new wealth.

Moreover, under a private property system that relies on the market process, net additions to wealth roughly reflect how much one has added to the wealth of other people. In a market system, the only way to become wealthy is to please others, and the way to become very wealthy is to please the masses. Henry Ford catered to the masses with his automobile, satisfying their need for relatively cheap transportation, and he became immensely wealthy. In contrast, Henry Royce chose to serve only those with high incomes by producing an expensive automobile, and he did not become nearly as rich. To penalize people who carry out actions like Henry Ford's by forcibly taking large amounts of their income seems perverse.

Unfortunately, the mistaken zero-sum view of the world is quite prevalent. Many participants in discussions about Third World poverty believe that if only the wealthy nations weren't so well off, the poor nations would be richer. Although it certainly is possible that some of the wealth of some people has been taken from others, this is not usually the case. And if such takings occur, the solution is to move to a regime that protects people's rights to their property.

Ironically, the view that the world is zero-sum often makes conditions worse. Proponents of the zero-sum view usually favor large-scale political reallocation of rights. Such reallocation encourages, indeed requires, that everybody enter the fray. War is expensive whether it occurs on the battlefield or in the halls of Congress. When government has the ability to hand out numerous favors, many citizens compete for those favors, while others lobby vigorously to retain their assets. Typically, the net result is less wealth remaining after the reallocation than before reallocation.

## Power

The gravest injustices in the history of mankind have occurred when some people have had excessive power over others. This power sometimes has been economic and at other times political, but in either case the ability to control others' choices has caused enormous suffering. What sorts of institutions best fragment power and prevent some people from holding too much sway over the lives of others?

This question must be answered in the context of a realistic understanding of how the world operates. Whatever institutional arrangements exist, some people will be more powerful than others. The relevant issue is not what set of rules keeps people from having any control over others, but rather what institutions best limit the accumulation of power.

History is replete with examples of the misuse of coercive power in the hands of the state. One should therefore be suspicious of institutional arrangements that rely upon massive concentrations of power in the hands of the state, even though the stated goal is to correct for

injustices in the private economy. Societies without private property rights concentrate large amounts of power in the hands of a few, and that power traditionally has been badly abused.

A strong case can be made for an institutional order under which the state enforces clearly defined rules that keep people from imposing costs on others without their consent, but one in which the state is also limited in terms of the costs it can impose on individuals. A society where the government is responsible for defining and enforcing property rights, but where its role is also constitutionally limited, represents a viable combination. Such a system fragments power and restrains people from imposing costs on others without their consent.

This is not to argue that a market system can serve as a replacement for a society in which people act on the basis of moral conscience. Individual morality certainly will enhance capitalism, as it would any system. Honesty, compassion, and empathy make our world more livable whatever the institutional arrangement. Capitalism is not inimical to these qualities. When alternative economic systems are evaluated within a moral framework, sound reasons emerge for favoring private property rights and markets. Markets and morality can serve as useful complements in maintaining a just society.

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