Free Markets and Character

Economics is the method. The object is to change the soul.
Margaret Thatcher

When a colonel runs his household like his battalion, we think it funny. Likewise, the radical who runs his family like a commune and the owner who runs his company like a family often cause us to smile. We smile because we know that people and communities are not just one thing; one form of organization will rarely suit every social need, and will sometimes do harm in the wrong context. This common-sense insight applies to a particularly powerful form of social organization, the free market.

Of late, markets are on the march. Alternatives to the market organization of commerce have been discredited (appropriately) by the communist fiasco and socialist experiments throughout the developing world. Free markets produce more material wealth than any other economic system, and promise over the next several decades to bring billions of people out of material poverty. There is no turning back, but many would continue the march, into questionable territory.

An increasing number of people apparently expect much more out of free markets than material wealth. Markets are now heralded as solutions to a host of social problems. In particular, many claim that exposure to markets makes people more honest, thrifty, and communally minded. It is this claim in particular—that markets make people more virtuous—that I examine in this paper.

Given the current state of western culture, it is not surprising that many concentrate their intellectual efforts on the promotion of free markets, a western success story. Having little to cheer them in the broader culture, many economic conservatives look to markets to cure whatever ails us, from material poverty to poverty of the soul.

Opposed to this view are those whose goals for markets are more limited. It should be noted that their goals are hardly modest. To social commentators like John Paul II, Amiat Etzioni, and Michael Novak, markets provide a place for man to realize his vocation to work, while at the same time granting abundant material success to that work. Notwithstanding the material riches produced by markets, all three place the market economy within a tightly circumscribed sphere. The greater socio-cultural sphere, with its ethical and religious dimensions, must provide meaning, as well as the store of character that allows the economy to function.
There is much at stake in our verdict on the market’s moral effects. If the economy can both manage itself and equip its participants with the virtues, then we need only extend the market into every sphere. Alternatively, if the economy, while providing material prosperity, threatens poverty of the soul, we must shield some parts of social life from the market’s logic, and nurture a culture that equips us to avoid its moral thorns while plucking its material fruits. These are the real issues—not capitalism versus socialism (we have abundant evidence that socialism impoverishes man materially and spiritually), but markets only versus markets in culture.

With these issues in mind, let us turn to the debate over markets and character. In this essay, I will make the argument that we should not leave virtue to markets; in important areas, we must protect virtue from markets, even while we accept the goods offered by free market organization.

Those who assert that markets erode character (whom I shall call “market critics”) attack on a broad front. Although the criticisms of this school cover several centuries, and are often diverse in approach, one can form a surprisingly coherent critique from them. Because markets are impersonal, they obscure the moral obligations implicit in community life. Moreover, the diffuseness of social relations in modern markets makes the provision of virtue more difficult. Finally, the market, encountering less resistance from traditional teachers of virtue (family, church, community), advances unhealthy or inappropriate standards of conduct and valuation.

Against this broad attack, those who defend markets (whom I shall call “market defenders”) mount a resolute but surprisingly narrow and incomplete defense. Market defenders point out that markets, while perhaps weakening some social bonds, create others, and foster and reward virtue in producers and merchants. The market defense is curiously incomplete, however: it does not address the disincentives to virtue among those whom markets bring into competitive conflict. Moreover, it ignores the claim that markets make consumers overly preoccupied with consumption (or grasping). The silence on these issues is striking, and suggests that market defenders have no answer to the claim that markets foster consumerism and pervert the morals of competitors.

In this essay, I define market to mean free market, the sum of the institutions which govern the free exchange of goods for money. All producers who have the finances and wherewithal, and consumers who bring their money, may participate. I define character as Aristotle does, as a disposition to perform good acts. A man of character is disposed to value material wealth, friendship, family, country, and God as he ought; his actions reflect his values. It implies as sense of moderation, of reasoned preferences ruling passion.

A long tradition, going back to Adam Ferguson (a contemporary of Adam Smith), claims that free markets erode virtue. A recurring theme in all of the market criticisms is that the impersonal nature of the market is a curse as well as a blessing. Because the market is impersonal, it provides tremendous access to ownership, employment, and consumption, and allows society to reap the advantages of the division of labor implied by a broadly-extended market. Notwithstanding its advantages, the impersonalism of the market has three serious drawbacks, according to market critics. First, being impersonal, markets increase the “moral distance” between market participants. Second, by making diffuse the formative influences on character, markets make the provision and sustaining of character more difficult. Third, in the face of decreasing resistance from traditional teachers of virtue (family and community), markets advance a narrow notion of well-being which is inimical to happiness and social peace.

One can read Marx’s concept of alienation as a description of the impersonal nature of markets and of the subordination of the moral duties implied in human relations to the logic of the market. Marx...
These concerns about the erosion of communal and familial bonds in market societies are echoed in Catholic Social Teaching. (1978) describes how what was once seen as a human process (production, distribution, employment) comes to seem mechanical, beyond our control, in market economies. A worker who feels that he has no choice but to work long hours and neglect his family duties, because some unseen workers elsewhere in the market will be happy to take his job if he opts for healthier hours, and the employer who feels compelled to fire workers because “the market is shaking out,” act under pressure from forces which seem beyond their (or anyone else’s) control.

As Polanyi (1944) puts it, in market economies the “human system” becomes “an accessory” to the economic system. As labor and land are incorporated into the market system, they become commodities, and are treated as such. The employer is tempted to treat workers like any other input, as manipulable as capital. Workers themselves are tempted to regard their own labor as a product, not as a participation in the life of society.

Wilkur (1984) suggests that the more impersonal a market, the less moral precepts operate in it. Markets with lots of producers, none of whom have appreciable market power, appear to be beyond the control of anyone, and obey their own rules. One does not talk of the morality of the market price of wheat. When participants in relatively competitive markets (unskilled workers, say) suffer hardship, there is an “absence of an identifiable villain,” no one to blame, and consequently little reason to feel responsible for the effects of one’s actions in that market—little reason to examine human action in any moral context. In contrast, in less competitive markets, the few producers are subject to greater moral scrutiny.

These concerns about the erosion of communal and familial bonds in market societies are echoed in Catholic Social Teaching. The promotion of the solidarist economy in Pius XI (1931), and his solicitude for the numerous mediating structures which hold together and nourish human society, reflects a desire to counteract the atomistic nature of modern economies and economic analysis. John Paul II (1981, 1987) shows continued concern that solidarity be nurtured in market economies.

These writers all contend that markets obscure the social obligations that serve as a constant challenge to virtuous behavior. Other writers make the related claim that markets, by making the formative influences on character more diffuse, raise obstacles to the provision of character.

Simmel (1908) puts this diffusion, made possible by the division of labor (determined by the extent of the market economy), into a theoretical framework. To Simmel, the mark of increasing modernity, made possible by the increasing reach of modern markets, was what Coser (1971, p. 189) calls “... a progressive liberation of the individual from the bonds of exclusive attachment and personal dependencies.” Premodern (or pre-market) society was unitary—most men lived in small, tightly-knit social circles which shaped their character, and provided them with work and meaning. The clan or village was everything.

In modern societies, the principles of division of labor and comparative advantage have produced a society in which every person belongs to several overlapping social circles. Few people work, worship, learn, and live in the same place anymore. Children are taught in public schools, nurtured at home, exercised in organized sporting venues, and socialize at the mall. Adults have one set of friends at work, another at church, and another across the backyard fence. Accordingly, the formation and maintenance of character is now a more difficult task, requiring coordination and monitoring among a large number of unrelated groups whose interests may be divergent.

Morse (1994) describes the formation of character in modern society as a public goods problem. Although all of society has a stake in the formation of character in children and the maintenance of character in adults, most of those who influence the character of others have little incentive to insure its provision. Advertisers care about
selling their product, and leave character formation to others. Media outlets care about gathering audiences for advertisers, and leave character formation to others. Educators do not have the same passionate interest in the students that the parents have, may have different ideas about ideal character, and are often only tenuously accountable to parents. Parents themselves may be tempted to become free riders, relying on schools and others to teach their children responsibility, even sexuality. The multiplicity of market relations makes it more problematic to clothe children in virtue, and to support virtue in adults.

According to the market critics, markets not only make the formation of virtue more difficult—they actively promote a set of values and norms of behavior which militate against anything but the most truncated notions of virtue. As the traditional sources of moral formation weaken, the market offers a new set of values (materialism, acquisitiveness bordering on graspingness, freedom bordering on license) which are harmful to human happiness and social peace.

Misgivings about market values are prominent in the writings of market critics earlier in this century. Tawney (1920) asserts that acquisitiveness flourished in Western societies after religious authority abandoned the social and economic spheres in the 18th century. Fanfani (1984) claims that capitalist culture undermines religious faith, or at least weakens its influence.

More recently, Hirsch (1977) contends that free markets are dependent upon a dwindling stock of moral capital from previous generations to ensure that contracts are not violated, and that civic virtue can make up the shortcomings of markets in providing public goods. These concerns are echoed in Plant (1992), who makes two points. First, markets may disturb their moral underpinnings—self-interest undermines the sanctity of contract, and the civic virtue that both government and subsidiary social organizations must appeal to is not generated in markets. Second, he maintains that markets in education, medicine, and government erode the ideals of service that once sustained them.

Anderson (1990) describes the ideals realized in markets, and makes the case that those ideals are inappropriate and harmful in other, non-market contexts. Markets are effective in promoting a particular conception of freedom—the freedom to act as one wills without having to ask permission from others. This notion of unconstrained freedom is unhealthy when adopted as a principle of life; it flouts the allegiance that freedom owes to community and, ultimately, to truth. Such a notion can be useful in a well-defined, tightly-circumscribed sphere, but must be contained within it.

Consistent with this ideal of unlimited personal freedom, markets promote certain norms of social interaction:
1. They are impersonal: they define a sphere of freedom from personal ties;
2. They are egoistic: in markets you are free to pursue a narrow self-interest;
3. Markets are want, not need-regarding: all desires receive equal weight;
4. In markets, dissatisfaction is expressed through exit, not through voice.

Goods which are appropriately described by these norms (groceries, cars, clothes) should be traded in markets, but many goods do not fit them. Anderson points to two classes of goods which should not be traded in markets: goods in the personal sphere (you should not sell sex or friendship), and goods in the political sphere (you should not sell votes), but her analysis can be extended to other goods by an appeal to moral theology.

Although Anderson’s framework sheds useful light on the norms of market interaction, she does not explain how those norms might spread into other areas of life with markets. Radin (1987) offers a clue to this process by examining the power of market rhetoric. Radin first lists four characteristics of market rhetoric:
1. Everything desired is a good, and can be possessed. (This characteristic echoes...
Anderson’s want—regarding market norms.)
2. All human actions and outcomes are described in terms of costs and benefits.
3. Human freedom is defined as freedom to choose to maximize your own ideals. (Again, there is no connection between freedom and truth.)
4. All interactions are described as voluntary exchanges.

Radin claims that the spread of this rhetoric beyond narrowly-defined market contexts is harmful. To Radin, "... the terms in which life is conceived matter to human life" (p. 1885). Elsewhere, she writes "... a particular conception of human flourishing is advanced by this pervasive use of market rhetoric" (p. 1884).
The ways in which we talk to each other, persuade each other, affect our conceptions of value and freedom. Moreover, when the rhetoric of market exchange is applied outside of its appropriate limits, rapists are said to benefit from raping, politics is reduced to rent-seeking, and the repugnance for goods made with slave labor becomes just another "taste."

Etzioni (1988) voices similar concerns about the effect of the rhetoric of economics on social mores. Economists love to shock their students by discussing the decision to remain married, to worship, and to give to charity in terms of pure self-interest. Unfortunately, there is some (mixed) evidence that the students listen. Marwell and Ames (1981) give experimental evidence that students of economics are more likely to free ride than students of other disciplines. It is unclear whether economists are attracted to the discipline because they are rogues, or that economic rhetoric makes them so. Carter and Irons (1991) argue that economists are born that way, but the empirical verdict is still out.

As the rhetoric of markets spreads, it is difficult to escape its logic. Strathern (1992) offers as an example the modern "market for children," a creation of market rhetoric. As more and more couples choose their children’s characteristics (through prenatal testing and selective abortion today, and presumably through genetic engineer-
broad obligations among members of society, a mutual dependency which often goes beyond the exchange of goods or labor services.

Georg Simmel (1955) expressed a point of view popular among recent supporters of markets. According to Simmel, markets foster sympathy in producers and sellers. To be successful, a seller must anticipate and meet the needs of his customers. Thus markets reward those who identify and minister efficiently to the needs of others.

Most recently, Margaret Thatcher, the economist Donald McCloskey, and Michael Novak have argued that exposure to markets breeds virtue. Thatcher expected widespread privatization and ownership of assets and the promotion of self-employment (a sort of "popular capitalism") to touch off a revolution of the spirit. In addition to creating more wealth, an enterprise culture would help persons to flourish in every part of their life; even the community would benefit, as the benefits of enterprise culture bubbled over into greater community involvement and charitable giving.

McCloskey (1994) is no less outspoken in his defense of what he calls "bourgeois virtue":

The growth of the market, I would argue, promotes virtue, not vice...we all take happily what the market gives—polite, accommodating, energetic, risk-taking, trustworthy people; not bad people. In the Bulgaria of old...the department stores had a policeman on every floor...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 in miniature of bourgeois virtue (p. 181).

A businessman is driven by the need to persuade his customers: persuade them that the product is good, that they need it, and that he is worthy of trust. This pervasive reliance on persuasion creates powerful incentives for virtuous behavior.

Consider the importance of reputation:

A reputation for fair dealing is necessary for a roofer whose trade is limited to a town with a population of fifty thousand. One bad roof and he is finished in Iowa City, and so he practices virtue with care. By now he would not put on a bad roof even if he could get away with it, and he behaves like a growing child internalizing virtues once forced on him (p. 182).

By these and other stories the defenders of market culture highlight its positive effects on human character. The logic of market relations appears to reinforce virtuous behavior.

John Paul II (1991) also appears to weigh in support of these propositions. In a discussion of the sources of wealth, he echoes the points of Simmel and McCloskey:

The ability to foresee the needs of others and the factors to satisfy those needs is another source of wealth in modern society.... Important virtues are involved in this process (the transformation of the man's environment through more extensive working communities) such as diligence, industriousness, prudence in undertaking reasonable risks, reliability and fidelity in interpersonal relationships, as well as courage in carrying out decisions that are difficult and painful but necessary... (para. 32).

The Pope offers strong support for markets in these passages. His reservations about market economies lie elsewhere, as we shall soon see.

Michael Novak, as far as I can tell, does not fit neatly into this debate. I quote here his writings in support of the market's virtues, echoing the sentiments of Thatcher and McCloskey. In the epilogue to Novak (1993), he asserts that "... when a country moves from being a traditionalist society to becoming a market society, the moral habits of its people generally show improvement—at least in certain specific ways" (p. 225). Later, he writes that markets encourage citizens to be "... law
...advertising promotes a vision of happiness in which every problem can be solved, and every happiness increased, by purchased goods.

abiding, cooperative, and courteous even to strangers (such as customers)” (p. 227).

As far as it goes, the defense of the virtues of markets is forceful, but it does not go far enough to be convincing. An individual assumes at various times and places different roles in a market economy, and his character is potentially affected in each. The defense of markets centers on the individual in only one of the roles he takes on in a market economy, that of the producer. Producers and merchants undoubtedly have every incentive to be nice to customers, and to be trustworthy in their dealings. In some instances, where consumer credit is involved, consumers also have incentives to develop trustworthiness.

The difficulty with this line of argument is that relations between participants in a market are not always those of mutually beneficial exchange—they are often in competition with one another, and competition does not provide the same incentives to virtue. Producers of the same product are not necessarily nice to each other, and workers who compete for the same job (immigrants and native workers, for example) have every incentive to undercut and demonize each other (ask any pre-med student). In short, the market might reward your local hardware dealer for his kindness toward his customers, but it does not reward his kindness toward his fellow hardware dealers.

Furthermore, market defenders fail to address the contention of the critics that markets foster an unhealthy consumerism. Producers have every incentive to persuade their customers to spend. To this end, advertising promotes a vision of happiness in which every problem can be solved, and every happiness increased, by purchased goods. Households are encouraged to borrow today instead of saving for tomorrow.

Amid his cautious endorsement of market economies, John Paul II (1991) expresses great concern with this aspect of market cultures:

A given culture reveals its understanding of life through the choices it makes in production and consumption. Here the phenomenon of consumerism arises. Of itself, an economic system does not possess criteria for correctly distinguishing new and higher forms of satisfying needs from artificial new needs that hinder the formation of a mature personality. Thus a great deal of educational and cultural work is urgently needed, including the education of consumers in responsible use of their power of choice.... It is not wrong to want to live better; what is wrong is a style of life presumed to be better when directed towards “having” rather than “being” (para. 26).

John Paul II contends that markets, left to their own logic, tend towards a sort of frantic consumerism. Mature character, at least that aspect of character which consists of moderate appetites for material things, must be nurtured outside of the marketplace.

The claim that markets produce a preoccupation with consumption rings true. As Maital (1982) points out, most modern men and women are formed as consumers long before they receive any formation as workers or producers. Our economic attitudes towards consumption are formed long before we learn how to work or invest. In this, as in other moral development, the influences are diverse, and any parent must contend with a host of competing influences. Few turn off the television or withdraw the kids from the local (public or private) school. Accordingly, children get their attitudes towards consumption from their parents (who may have bought into the prevailing attitude that the fruit of increasing prosperity should be devoted to more things for the kids), their televisions, and their peers (who usually reinforce the messages of the television).

Related to Maital’s point about the formation of preferences in the young is George (1993), which asserts that, if advertisers can indeed change preferences (and advertisers certainly hope they can),
then advertising produces a potentially negative externality. Advertisers do not have to compensate a person who, as a result of hours of television, adopts a taste he does not want. When Calvin Klein persuades children to show their underwear in public, it does not have to compensate their parents. Worse, the traveler who is trying to moderate his candy consumption cannot sue a company for tempting him at every turn, in the airport and on the street corners.

It must be admitted that consumers have, at least theoretically, one incentive to moderation in consumption—the return to thrift. It is an often-expressed hope that households, in view of the large returns to be gained through investment, will moderate their consumption today in pursuit of opportunities for creative and lucrative investment. One suspects, however, that, given the opportunity to borrow (that is, consume more today at tomorrow’s expense) many consumers forsake the romance of dynamic capitalism in favor of the pleasures of current consumption.

The defense of markets as schools of morality comes up short. In pointing out the clear incentives to virtue in exchange relations, market defenders neglect the incentives of competitive relations, and market influences upon the decision to consume. In contrast to the incentive to virtue in exchange relations, there appear to be no rewards for virtue among competitors, and little incentive for moderation among consumers. In short, the market defenders do not meet all of the objections of the market critics—they do not even try to meet all of the objections. One suspects that it is too much to expect of markets that they will both save the world from material poverty and create virtuous individuals.

Markets were never meant to. No one institution could. Michael Novak, notwithstanding the above quotes, appears to agree. Novak (1993) invokes to good effect the analogy of constitutional checks and balances in describing the rightful place of the market in social life. The state (whose proper form is representative democracy) and the society (which depends for its vigor upon strong cultural and moral institutions) check the excesses of the economy (whose proper organization is the free market). As an example, he examines the place of instrumentalist (calculative, cost-benefit thinking) in his system:

In such a tripartite system, instrumental thinking may be restricted to those aspects of life for which it is appropriate. It should be vigorously repelled when it encroaches on other spheres. This institutional pluralism disrupts rationalism; it encourages practical wisdom (p. 53).

There is a clear notion in Novak’s writing that markets cannot solve all problems. Novak (1982) states categorically that market capitalism “... cannot thrive apart from the moral culture that nourishes the virtues and values on which its existence depends” (p. 56). In this he echoes the perspective of Catholic social teaching, from its roots in von Ketterler and Pesch to John Paul II.

It is no great shame that markets cannot create virtue. It is perhaps a sign of the extent of moral decay in Western society that they are expected to. One suspects that we turn to markets to boost our morals because they have boosted our incomes so well. This is part of the materialist fallacy, and is shared by liberals who put their hope for moral regeneration in a more equal distribution of income. Those who look to markets for virtue do not make a convincing enough case; we must undertake the more arduous task of rebuilding the cultural institutions which nourish virtue, as daunting as the task may seem.

ENDNOTES

1 Michael Novak is hard to place in this debate. In his writing, he offers some support for both sides.
2 Pius XI did not actually use the term “solidarity,” but his writings promote
what we today call solidarity.

3  See especially chapter 3.
4  See especially chapters 5 and 6.

REFERENCES


Morse, Jennifer Roback. "Who Puts the Self- into Self-Interest?" manuscript, George Mason University, 1994.


