Three Ethical Criteria for Evaluating the Humanity of Economic Systems

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Abstract: This essay proposes three ethical criteria for adjudicating the moral permissibility of any economic system facilitating resource allocation and exchange. The criteria include the capacity of any economic system to safeguard the dignity of autonomous economic action, ensure some baseline standard of material welfare, and promote human flourishing. Each criterion corresponds to a primary strand of normative ethics in the Western philosophical tradition: deontology, consequentialism, and virtue ethics. Alongside defining each criterion, the essay evaluates whether contemporary mixed-market economic systems satisfy its moral demands. This includes proposing potential innovations to existing market systems, designed to ameliorate their inadequacy in meeting the threshold requirements of each criterion. These potential correctives extend beyond altering the scope of the state’s redistributive and regulatory power in economic life. Of particular interest is the unique role placed by Christianity and religious institutions in inculcating morally conscious behavior among consumers, the principal economic agents shaping the productive and allocative outcomes of market exchange.

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Calls for moral reform of market societies may prove vogue in our contemporary age of economic anxiety but they are far from a recent innovation. Rather, in lamenting the dehumanizing social costs of modern economic exchange, these demands recapitulate critiques from Jean-Jacques Rousseau, Karl Marx, and other historical critics of capitalism. Even if the ideas are themselves not new, the durability and pervasive intellectual purchase of these critiques throughout all socioeconomic strata are too notable to ignore — foremost of all, for the intelligentsia and governing classes. The moral legitimacy of the
market system in an age with strong skepticism among the elite and demos demands that market apologists either accept components of these critiques or offer a clear refutation of their analytical errors.

Essential to any such response is a compelling establishment of moral criteria by which societies can collectively adjudicate the ethical permissibility of an economic order. Without a clear sense of what standards define an economic system as humane, it is impossible to offer a compelling defense or critique of markets. This article offers a philosophical foundation for evaluating the strengths or weaknesses of mixed-market economic systems. It proposes ethical criteria that define the moral dimensions necessarily satisfied by a humane economic order. The contribution of these criteria to ethical debates over capitalism facilitates fruitful and productive discourse from a collectively accepted philosophical common ground. Even if a society arrives at different conclusions on the extent to which a market system meets any of these criteria, it represents dialectic progress that debates over the morality of markets have transcended the metrics for evaluation themselves.

This article offers three primary criteria for evaluating the humanity of mixed-market economies and any alternative economic order that would seek to replace the current institutional regime. First, a humane economic system should respect the freedom and sovereignty of individuals to act in pursuit of their perceived self-interest in the realm of economic exchange. This criterion draws on Kantian considerations of the morality of markets and requires an economic order to respect each person's self-determined preferences and objectives. Second, a humane economic system ensures that each participant's material welfare is sufficiently satisfied. The second standard relies on a consequentialist logic by focusing its evaluation of an economic system's outcomes on allocating resources among a society. Finally, a humane economic order should promote human flourishing and advance the metaphysical well-being of its participants. This final criterion embodies an Aristotelian virtue ethics analysis of economic systems, in terms of any system's institutional capacity to foster virtuous women and men.

The chosen criteria represent a holistic synthesis of existing defenses or critiques of markets made by economists, philosophers, theologians, and other scholars. They also adhere to the three principal traditions of Western normative ethics: deontology, consequentialism, and virtue ethics. The remainder of this article is broken down into three sections
that elaborate on the moral demands of these criteria and offer an evaluation of how mixed-market economies perform under each dimension. To the extent that existing market institutions may not meet the benchmark established by each standard, possible innovations on the existing market order are posited as remedies. The article concludes by considering the influential roles that consumers and religious institutions, such as the Roman Catholic Church, play in promoting just markets.

Before commencing this discussion, it is useful to highlight an overarching theme of this article’s analysis. The classification of an economic system as humane implies that resource-allocating institutions meet a benchmark ethical standard. In this formulation, there may be several economic orders that would meet the humane standard. This definition of a humane economy is categorically different from identifying the best economic system or a preferred economic order. While idealism may usefully sketch out a tantalizing vision of economic life at the apex of human perfection and achievement, an abstract ideal may not reflect human nature in its complex reality.

**Criterion 1: Deontological Ethics and Respecting the Sovereignty of Economic Agents**

The first ethical criterion undergirding a humane economic order is the demand that an economic system respect an individual’s freedom and autonomy to act in her or his self-interest within the economic domain. This represents an application of Kantian ethics for determining the ethical foundations of markets or other resource-allocating systems. Human freedom is essential for Kantian conceptions of morality on two counts. First, as noted in the *Critique of Practical Reason*, human freedom is a prerequisite for morality to hold any significance in evaluating human actions.\(^1\) If an individual is not free to choose, the imposed choice he or she must elect lacks the ethical content necessary for discerning its probity.

Second, drawing on Immanuel Kant’s familiarized “formula of humanity” iteration of the categorical imperative in his *Groundwork for the Metaphysics of Morals*, moral actions are presupposed never to treat other human beings as merely means in themselves.\(^2\) This does not imply that human beings cannot proffer or benefit from interpersonal exchange. Interactions with others must either result in a mutually
agreeable shared end or represent the outcome of an action consensual to all involved agents. At its heart, Kant’s logic reflects the moral demands underlying the Christian anthropological premise of the *Imago Dei* in Genesis 1: 27. If man is designed in the image of his or her creator, all people demand respectful treatment consistent with recognizing their inviolable and inherent dignity.

Applying deontological rules to assess the moral dimension of an economic system, the morality of an economic order is premised on its capacity to safeguard human freedom in economic exchange. Human beings, as ends in themselves, should not be unduly constrained or face nonconsensual coercion from economic institutions that unjustly strip the agent of both economic sovereignty and the opportunity to live morally in the economic domain. By this standard, modern mixed-market economies appear to reasonably meet the first criterion’s standard. Market apologists advocate for the morality of markets by considering how market exchange relies on mutual consent in economic transactions.

This logic simultaneously articulates the theoretical structure of market equilibria in microeconomics and the moral dimensions of the actions it represents. In output markets, where goods and services are transacted daily, neither buyer nor seller is coerced to buy or produce a product. Only at mutually agreeable prices consented to by all parties will a transaction be finalized. The logic of consent is also endemic to the theories of Paretoian welfare economics. Exchange between individuals occurs insofar as it represents a Pareto improvement: transactions that benefit all parties without harming or manipulating others to achieve gains from exchange.

The economic freedom at the heart of this first criterion is necessarily curtailed by other ethical demands that the agent faces. Foremost of these is the duty placed on free actors to not undertake actions that entail an instrumentalization of other agents in an economic order. It is this limitation on the moral scope of economic freedom that is often articulated by critiques focusing on the unjust power imbalances in market systems. For instance, detractors of modern markets may insist that labor is a dehumanized “cog in the machine” of production. To the extent that survival and economic imperatives erode one’s understanding of labor contracts as freely chosen and consensual pacts, firms
may exploit labor for their own immoral gains. Outside labor markets, one can point to negative externalities and spillovers from otherwise consensual actions, such as pollution and other forms of ecological degradation affecting agents external to transactions. The logic of consensual market exchange also assumes the absence of knowledge asymmetries that denote several markets as ripe for exploitation by informed sellers to gullibly unaware consumers.

These critiques may be well intended but they are intellectually hollow in presuming an inability of mixed-market economies to respond adequately to concerns properly understood as market failures. They often adjudicate markets as if exchange took place in the idealized, unregulated marketplaces that are mere abstractions of economic theory. The free-market ideal in truth is a straw man removed from the practical reality of regulated markets facilitating exchange in modern societies. An active role for the state in governing markets has arisen in response to the exact same critiques that presuppose markets as inflexible to aiding the disempowered worker, unaware buyer, or unwilling external party.

However, drawing on George Stigler’s logic of regulatory capture and Ronald Coase’s advocacy for private solutions when transactions costs permit, government represents only one possible means for addressing market failures. In particular, socially conscious firms that value the Kantian ends of all parties involved in the production process may offer alternative resolutions. Their solutions to the challenges of information asymmetries and power disparities in input markets may prove preferable to the state mediated alternative.

A compelling case study of the corrective role firms play in markets is seen through the example of Whole Foods. In their book *Conscious Capitalism*, co-CEO of Whole Foods, John Mackey, and his coauthor, Raj Sisodia, challenge firms to educate consumers on ethical business practices, nudging them into being conscious consumers. The authors used the curation of their product line as an example of this process:

As their trust in us has grown, our customers increasingly look to Whole Foods Market to be their “editors” as we carefully examine and evaluate products we sell. For example, we do not offer tobacco products, foods with artificial ingredients,
hydrogenated oils, meat produced with low animal welfare standards, or fish that are farmed beyond sustainability. The decisions were made not just because of consumer concerns, but because we study healthy trends of humans, animals, and the environment.⁵

The strategies of corporately conscious firms, such as Whole Foods, exemplify producers' capacity to willfully transcend the purely profit-maximizing archetype of firms as corporate predators.

Investment firms are also observed as reducing the search costs for consumers pursuing socially responsible investing. Saint John Paul II, in his 1991 encyclical Centesimus Annus, was an early advocate of what is now called an “environmental, social, and governance” investment strategy.⁶ The most recent US SIF Foundation Report on US Sustainable and Impact Investing Trends found:

The total US-domiciled assets under management using sustainable investing strategies grew from $12.0 trillion at the start of 2018 to $17.1 trillion at the start of 2020, an increase of 42 percent.... The top three specific issues for money managers and their institutional investor clients are climate change/carbon emissions, sustainable natural resources/agriculture and board issues.⁷

All these responses represent the plasticity of market systems to empower the economic freedom of market participants demanded by criterion 1 while safeguarding against actions that violate the unique sovereignty and value of each human. If a humane system demands additional market interference to ensure human freedom and dignity are respected, no obvious structural impediment is blocking such action from taking place.

**Criterion 2: Consequentialism and the Material Welfare of Economic Agents**

The second ethical criterion for establishing the humanity of an economic order is the moral imperative for an economic system to sufficiently satisfy each participant’s material welfare. This ethical demand, which deigns a system’s moral permissibility based on its resource-allocation outcomes, examines markets from a consequentialist perspective. Consequentialism
and its best known lineage of Mills-Benthamite utilitarianism offers moral guidance based on maximizing the collective outcomes for all actors affected by an action.\textsuperscript{8}

Similar to the deontological logic of consent in market exchange, consequentialism and its dialectical focus on outcomes is readily embraced in economic theory. This is seen in the construction of the firm and consumer problems as pursuing maximalist outcomes in their respective objectives of maximizing profit or utility. Welfare economics and social choice theory similarly draw heavily on the traditions of consequentialist ethics.\textsuperscript{9} A society's social choice over a set of goods and services is determined based on maximizing a social welfare function that assigns equal or unequal weights to the experienced outcome of each member in that society.

The primary challenge presented by the consequentialist approach is the philosophical dissonance between its emphasis on systems that maximize outcomes and the more modest aim of determining when an economic order, such as a mixed-market system, is sufficiently humane. A plausible means of resolving this tension is to defer to the popular Rawlsian social welfare function in social choice theory.\textsuperscript{10} This approach, echoing the call of Jesus in Matthew 25: 40 to treat the poor no differently from God made man, evaluates societies based on their treatment of their least fortunate members.

While following a Rawlsian conception of justice may represent a reasonable approach for discerning the consequentialist perspective, which practical socioeconomic metric should determine the threshold of representing a humane economic order remains debatable. For instance, is it sufficient for an economic system to eradicate absolute poverty, or must it ensure a more restrictive measure of absolute income? Further complicating these options, a society may channel the income inequality zeitgeist of contemporary life and deem that absolute treatment of the least fortunate is less important than is the relative gap in outcomes between rich and poor.

Assuming one does elect for an absolute measure of economic well-being, the economic system of mixed-market capitalism satisfies or shows promise in fulfilling the materialist demands of criterion 2. Looking just at the United States, 0.018 percent of Americans live on net-of-transfers household incomes above the World Bank's $1.90 per day definition of absolute poverty.\textsuperscript{11} While the official US poverty level
spans between $12,000 and $30,000 and affects approximately 10-15 percent of the entire population, this metric is itself a socially constructed benchmark standard of living that fails to account for transfer payments and other forms of non-income support.

An analysis by Bruce Meyer and James Sullivan also noted that using household consumption, rather than pretax and transfer income, offers a more optimistic narrative of how the least fortunate households have benefited from the current mixed-market system. Their analysis found that consumption-based measures of poverty fell from 30 percent of the US population in 1960 to between 0 and 5 percent in 2007. It is notable that such a decline — which Meyer and Sullivan document as primarily occurring post-1980s — is seen during an age of anxiety over globalization and well documented contractions of manufacturing’s prominence in the services-centered American economy. To the extent that global economic integration coincides with a world historic halving of global absolute poverty since 2000 and a quality-adjusted reduction in prices facilitating higher levels of consumption for the poor, the Schumpeterian incentives of free-market systems prove amenable to criterion 2’s demands either at present or in an expected future.

These assessments are not to demean or trivialize the harsh experience of Americans or others living in poverty or enduring economic insecurity. Rather, this article aligns with the reserved optimism of Saint John Paul II’s economic critiques in Centesimus Annus. Saint John Paul II simultaneously recognizes the contribution of market societies in improving the poor’s material welfare while acknowledging the need to eradicate the inhuman deprivation that still plagues the least among us.

Nonetheless, even if one views existing market outcomes as not satisfying a necessary standard of material outcomes, a humane system determined to better live out Catholic Social Teaching’s focus on a preferential option to the poor is achievable within market systems. The second fundamental theorem of welfare economics poses one obvious remedy. It stipulates that several resource allocation equilibria are attainable under alternative transfer payment regimes. Insofar as an existing distribution of resources within a polity fails to meet its socially determined threshold for criterion 2, state-facilitated redistribution of
resources within a mixed-market system should ameliorate this shortcoming. A convincing argument against this claim must assert why markets cannot support socially demanded, alternative standards of material well-being established by society through a transfer regime.

Redistribution may serve as a potential corrective to the poor’s economic condition in mixed-market economies. However, one should understand the state’s contribution in promoting material welfare as subordinate to the benefits derived from the invisible hand of markets themselves. If this were not the case, command-and-control systems that imbued past and current technocratic governments with unrivaled power over resource allocation and production would supersede the material returns to citizens across the distribution of income in market-oriented societies. As one of the foremost apologists for markets as a means of economic organization, the Nobel laureate Milton Friedman best articulated the unparalleled capacity of market systems to alleviate material deprivation in a famous 1979 interview with commentator Phil Donahue:

In the only cases in which the masses have escaped from the kind of grinding poverty you’re talking about, the only cases in recorded history are where they have had capitalism and largely free trade. If you want to know where the masses are worst off, it’s exactly in the kinds of societies that depart from that. So that the record of history is absolutely crystal clear that there is no alternative way, so far discovered, of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system.16

International data from the Heritage Foundation support Friedman’s argument.17 Not only is there a positive relationship between the level of economic freedom and gross domestic product (GDP) per capita (adjusted for purchasing power parity), but the impact of economic freedom on output is also exponential. Moreover, economic freedom increases both short- (5 years) and long-term (25 years) GDP per capita growth rates. Market societies may not unilaterally satisfy criterion 2 without redistribution but there is no question as to which institution manifests the primary vehicle for banishing deprivation from contemporary human existence.
Criterion 3: Virtue Ethics and the Moral Formation of Economic Agents

The final criterion this essay proposes is the assertion that economic systems should promote human flourishing and advance the metaphysical welfare of participating agents. Analyzing the morality of markets or other economic systems in criterion 3 draws on the premises of virtue ethics. As an ethical framework designed by Aristotle, virtue ethics conceives morality as a conditioned state of enlightened human action and disposition. The idealized human hones his or her character through a temporally sustained struggle to reject the polarized extremes of human passions.

For example, consider the struggle that individuals face between the alternatives of epicurean hedonism and miserly penuriousness in their consumption habits. At first glance, one might think the latter is morally preferred to the former, but the avarice of stinginess remains lamentable in its own right. Only through practice can one discern an equipoised middle ground between these extremes represented by the virtue of conscientious and generous frugality. The conscientious cultivation of virtues, like in the previous example, is meaningful for a state of human flourishing known as eudaimonia. Living a life of virtue is required for achieving the moral and teleological potential of each human.

The foremost elaboration of how economic exchange fosters the development of virtuous character is seen in Adam Smith’s *The Theory of Moral Sentiments*. In his moral treatise, the intellectual father of economics described how market transactions result in a moderation of human passions toward virtue. Regardless of one’s perspective in market exchange — either buyer or seller — each participant practices sympathy toward the other’s aims. By working from a projection of what an impartial member of society at large would deem an agreeable or reasonable action, humans are conditioned toward a virtuous practice of prudence in market exchange. As one’s conception of virtue is likely rudimentary at first, human knowledge and awareness of moral behavior in markets are honed through experience. It is nevertheless useful that the outcome incentives of markets align with promoting sound character. This is particularly true for image-conscious sellers, who face the prospect of not only diminished character but also unprofitable ruin if their actions are socially understood as unsavory or rapacious.
Smith’s conception of market exchange emphasized how the market mechanism, in which individuals pursue their own self-interest with full awareness of the moral approbation of others, does not inherently imply immorality. Friedrich Hayek similarly recognized the range of moral distinctions that can characterize market participation, explaining in *The Constitution of Liberty*:

There is much confusion of the ideal that a person ought to be allowed to pursue his own aims with the belief that, if left free, he will or ought to pursue solely his selfish aims. The freedom to pursue one’s own aims is, however, as important for the most altruistic person, in whose scale of values the needs of other people occupy a very high place, as for any egotist.\(^{20}\)

Bhagwati offered a contemporary restatement of Smith’s notion that market activity and behavior are primarily influenced by the virtues and mores society and its institutions promote. He acknowledged that while markets will influence values... more importantly, the values we acquire elsewhere determine how we behave in the marketplace... These values are values that come from our families, communities, schools, churches, and indeed from our religion and literature.\(^{21}\)

Through the molding of institutions and the opportunities for practicing these virtues in markets, modern capitalism offers an invaluable means for inculcating the character and virtuous disposition that criterion 3 demands.

**The Moral Duties of Consumers and the Role of Christian Witness in Markets**

Even as markets in Smith’s formulation promote virtue and moderate the soul to a conception of the society’s moral consensus, it is not self-evident that societies are automatically inclined toward promoting a set of virtues that result in human flourishing. One only needs to consider the deleterious consequences of social media institutions in modern life and their associated corrupting virtues of aesthetic egotism as detrimental to character development and human fulfillment. Given the inherent reliance of humanity on its institutions for ensuring that markets function consistently with all three criteria, but particularly the
third, it is useful to consider the possible opportunities for religious institutions to function as a primary inculcator of character to ensure this potential of markets is realized.

Given its global prominence, rich intellectual tradition, and its familiarity to the authors, one can consider the specific role the Catholic Church occupies in influencing individuals’ economic behavior. The following examples from papal encyclicals and the *Compendium of the Social Doctrine of the Church* illustrate the duty which the Catholic Church has historically demanded of economic agents in markets. For example, Saint John Paul II in *Centesimus Annus* emphasized that this ethical responsibility extends to both consumption and investment decisions:

> In singling out new needs and new means to meet them, one must be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones.

> It is therefore necessary to create life-styles in which the quest for truth, beauty, goodness and communion with others for the sake of common growth are the factors which determine consumer choices, savings and investments... I am referring to the fact that even the decision to invest in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice.\(^{22}\)

The focus in Catholic Social Teaching generally stresses firms’ moral responsibility to implement socially conscious and value-driven methods of production. However, the following passage from the *Compendium of the Social Doctrine of the Church* illustrates how firms’ moral exhortations over economic life extend equally to the consumer:

> Purchasing power must be used in the context of the moral demands of justice and solidarity, and in that of precise social responsibilities... This responsibility gives to consumers the possibility, thanks to the wider circulation of information, of directing the behaviour of producers, through preferences — individual and collective — given to the products of certain companies rather than to those of others, taking into account not only the price and quality of what is being purchased but also the
presence of correct working conditions in the company as well as the level of protection of the natural environment in which it operates.\textsuperscript{23}

A similar contemporary recognition of the unique role that consumers play in fostering moral markets is seen in Pope Francis’s call for responsible consumer behavior in \textit{Laudato Si}:

A change in lifestyle could bring healthy pressure to bear on those who wield political, economic and social power. This is what consumer movements accomplish by boycotting certain products. They prove successful in changing the way businesses operate, forcing them to consider their environmental footprint and their patterns of production. When social pressure affects their earnings, businesses clearly have to find ways to produce differently. This shows us the great need for a sense of social responsibility on the part of consumers.\textsuperscript{24}

The pontiff presciently identified that market reform may end with firm action but finds its inspiration and power in the moral imperatives voiced by consumers.

Even if unintended, it is striking how the moral demands placed on consumers by Catholicism contour to the mechanical design of markets in microeconomics. In particular, the structure of markets not only offers consumers and their preferences the unique privilege of determining what goods and services firms produce but also stipulates the method of production itself. This sovereignty of consumers in directing market exchange offers them the foremost opportunity to shape economic realities into conforming with each of the three criteria articulated in this article.

Therefore, the humanity of market systems is inherently linked to the moral agency and willingness of consumers to meaningfully support just economic systems. To the extent that just wages, ethical supply chains, and environmentally sustainable production techniques are only fiscally viable with an increase in product prices, ethical consumers must signal their value for these production decisions through their willingness to pay higher prices. In bearing witness to the demand placed on the faithful, the church and other like-minded institutions face a moral imperative to evangelize this Christian duty of advocating and supporting economic behavior conducive to the common good.
Notes

15. Paul II, *Centesimus Annus*.