

The Market Has No Morals

by ARTHUR KEMP

SOME years ago, the biographer of Senator Carter Glass, late of the State of Virginia, Norman Beasley, wrote a book entitled *Politics Has No Morals*. It seemed to me to assert that politics, by its very nature, is immoral; the illustrative material cited was most persuasive. It was also my distinct impression that the author believed most politicians were descended from a long line of individuals who consistently and habitually neglected the legal and religious services associated with matrimony.

My use of the phrase, "The Market Has No Morals," is not meant to imply that the market system is immoral. Rather I intend to assert that the market system is amoral and, indeed, that this is one of its most important attributes if not its greatest virtue.

Good methodology requires that I specify what I mean by a *system* in general and a *market system* in particular. I do so, briefly, not to induce agreement or disagreement, but merely to facilitate communication.

By *system* I refer primarily to the economic system—to the way in which individuals (as nations, federations, confederations, groups or whatever) use their resources and abilities for whatever purposes and objectives they may have. Every system must, in some way, provide for certain basic functions although the relative importance of these has changed considerably over recorded history and, very probably, will continue to do so. These functions have been described often enough to enable us to dispense with anything more than a list. They include: (1) the fixing or determining of certain standards of measurement; (2) the organization of production—of what to produce and how much; (3) the distribution of the product among those participating in the system; (4) the adjustment of con-

sumption to production over short periods of time; and (5) the determination of the relative importance of present versus future consumption.

It will readily be recognized that these are the traditional functions of an economic system. One further function deserves to be mentioned: it is essentially economic in nature but has both political and moral overtones. Economics differs from certain other disciplines or organizations of knowledge, say engineering or technology, in a significant way. Briefly stated, in the technical endeavors the end is fixed but the means are multiple. Given the objective of providing a way for human beings to traverse a body of water, technology can provide some answers as to the relative costs of various means; such as a tunnel, a bridge, a system of boats or aircraft or whatever. But technology cannot provide, and is not asked to provide, an evaluation or even an explanation of evaluation of alternative uses of resources—either at the same time or over time. Is it better to use the same resources to traverse the body of water—or to build a church? Or a school? Or something else? Economic questions involve both multiple ends and multiple means. This implies that one additional function of an economic *system* is to rate, to evaluate if you prefer, these multiple ends, and to provide some way of reconciling conflicting ratings or evaluations of these ends by the individuals comprising the economic system. Different economic systems have used, and do use, different political and institutional arrangements. It is also true (and I merely assert it without attempting to provide the evidence) that different systems appear to have some variation in moral values. Does this imply differing economics? Probably not, but this is a conclusion drawn from the empirical evidence and is not a premise of economic science.

Basically there are only two—or at most three—types of economic systems capable of coordinating the economic activities of large numbers of people. As Professor Milton Friedman expresses it: "One is central direction involving the use of coercion—

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the technique of the army and the modern totalitarian state. The other is voluntary cooperation of individuals—the technique of the market place.¹ Some would add, as the third type, custom and tradition, although I tend to regard this, depending upon structure, as a variant of the other two.

BY a market economy or market system I mean one in which the vast majority of economic decisions are reached by voluntary exchanges between and among individuals or groups of individuals associating themselves together for some purpose. Such a system involves: (1) freedom for individuals to engage voluntarily in any activity that does not consciously and coercively reduce a third party's resources; (2) the minimization of coercion by government; (3) the minimization of governmental power and the dispersal of such power as cannot be eliminated; (4) the elimination or minimization of questions to be settled by political processes rather than in the market place. In such a system, the individual—whether he be a businessman, employer, employee, public servant, professor or clergyman—can have anything he wants and is able to secure by voluntarily offering his income or resources or abilities; with only one exception. He could not seize or secure the power to coerce anyone else.

It is scarcely surprising to find that some men dislike such a system, or that they clothe the desire to coerce or to control the activities, resources and abilities of other men in glowing expressions of righteous phrases. Power has always been the goal of some men—power over other men but, of course, for their own good! Take, for example, this passage quoted from a book written by the senior senator from Minnesota, Eugene J. McCarthy:

Whereas it is true to say that, theoretically speaking, government should do for its citizens only what they cannot do for themselves, in the practical situation it may sometimes be necessary to do for them what they should and could do for themselves, but do not do either individually or through corporate efforts below the level of government action.²

1. *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962), p. 13.

2. *Frontiers in American Democracy*, (Cleveland: World, 1960), p. 135.

This line of reasoning, of course, has a hole in it big enough to ram through the combined backfields of Notre Dame, Northwestern and Stanford, and perhaps have room enough for Hitler and Mussolini as well. Indeed, this seems typical of the arguments expressed by those who impatiently and anxiously seek to achieve the welfare state, or Great Society, or some other modern form of millenium. We should do more, so they say, for the poor, the farmer, the urban slum dweller, the senior citizen, or for education (whatever that may be) or the undeveloped country, or whatever—name your own. Without exception, in my experience, it turns out that the advocate is not being inhibited or prevented from (1) giving whatever resources and abilities he has to "help" the particular group in question; or (2) from using his resources and abilities to convince other people that they should voluntarily contribute their resources and abilities to "help" the particular group. What this all means is that he wishes to use the power of the state to seize the resources of other people and to use those resources for purposes of which he, the advocate of help, approves. One major complaint aimed frequently at the marketplace (usually by socialists or those who actively promote some form of welfare state) is that the marketplace defends selfishness and, therefore, is immoral; not amoral, you see, but immoral. For example, writing in the British journal, *Medical Care*, Professor R. M. Titmuss contrasts "organised medical care" (by which he means Britain's National Health Service) with the "invisible hand of the private market." If the marketplace were adopted, Titmuss concludes that "society could no longer rely upon doctors to give truthful information about their patients, or even information as reliable as one expects from the average shopkeeper."³

Professor Titmuss's rather snide reference to the invisible hand of the private market harks back, of course, to that famous passage in which Adam Smith refers to the man who "intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was

3. "Ethics and Economics of Medical Care," *Medical Care*, I (January-March, 1963), 16-17.

no part of his intention."⁴ This, I suspect, is partly some unfortunate phrasing on Smith's part and partly a misinterpretation of Smith, erroneously identifying self-interest with selfishness, egoism and greed. But it is only fair to recognize that a moral distaste for self-interest, the worship of selfless devotion to others, combined with a sort of economic paranoia, are attributes common to many, if not all, of the major religions.

There is also the sort of sociological miasma expressed in various ways all of which looks to relieving the individual of any sort of responsibility for his own condition. Society is always guilty; it is never *mea culpa*. The *culpa* always rests on others, preferably some faceless mass. This has been rather nicely expressed by one of my favorite philosophers. Perhaps the reader will recall the occasion that brings Lucy (of *Peanuts* strip fame) into the room just as her brother, Linus, has broken a lamp. "Aha!" she exclaims. "Now you've done it. And nobody else was here but you. You can't blame this one on anyone else." Fumbling with his blanket, Linus says: "Couldn't I just blame it on society?" The marketplace is not a very comforting instrument if one hopes to shift responsibility.

AMONG the conservative and classical liberal economists and philosophers there has been some degree of difference as to whether the market system is moral or amoral. I shall not dwell upon those who seem to equate efficiency and morality. There is no doubt in my mind as to the efficiency of the marketplace. Indeed, those who extol its efficiency seem to be the counter foil for those socialists and welfare statists who consider it immoral precisely because it is efficient—giving people what they want rather than what some one else thinks they *ought* to want. F. A. Harper expresses it as follows:

"To many persons, the Welfare State has become a symbol of morality and righteousness. This makes those who favor the Welfare State appear to be the true architects of a better world; those who oppose it, immoral rascals who might be expected to rob banks, or to do most anything in defiance of ethical conduct."⁵

4. *Wealth of Nations*, I, 16.

5. *Morals and Liberty* (1965), p. 3.

Among economists who have written extensively on the problem, it is certainly necessary to list Adam Smith whose first, if less famous, book was entitled *The Theory of Moral Sentiments* (1759). Among contemporaries, broadly speaking, are Frank H. Knight, *The Ethics of Competition*; Ludwig von Mises, *Human Action*; J. M. Clark, *The Ethical Basis of Human Freedom*; Wilhelm Roepke, *A Humane Economy*; F. A. Hayek, *The Constitution of Liberty* and recently Henry Hazlitt, *The Foundations of Morality*. If there is a serious difference among these writers—and I have learned much from each of them—it hinges not upon their advocacy and explanation of the market system but on whether such a system presupposes some certain set of morals. To put it differently, does a free market system rest upon moral values? Or does the development of and expression of moral values depend upon a free market system?

Roepke, for example, speaks of the market economy as "ethically neutral" by which "in virtue of a contractual reciprocity between the parties to an exchange, an increase of one's own well-being is achieved by means of an increase in the well-being of others." Yet he goes on to say that it is "of great importance not to forget the moral reserves which nourish the prosaic and in itself ethically neutral world of pure business, and with which it stands or falls."⁶

On the other hand, Hazlitt takes issue with P. H. Wicksteed precisely because Wicksteed presents the market as an "ethically indifferent instrument."

"Division of labor and exchange," wrote Wicksteed in *Common Sense of Political Economy*, "on which the economic organization of society is based, enlarge our means of accomplishing our ends, but they have no direct influence on the ends themselves, and have no tendency to beget scrupulousness in the use of the means. It is idle to assume that ethically desirable results will necessarily be produced by an ethically indifferent instrument, and it is as foolish to make the economic relation an idol as it is to make it a bogey."⁷

Hazlitt criticizes Wicksteed at some length

6. *Economics of the Free Society* (Chicago: Henry Regnery Company, 1963), pp. 20-22.

7. Chapter 5, p. 183. Quoted in Henry Hazlitt, *Foundations of Morality* (Princeton, N. J.: Van Nostrand, 1965), p. 319.

and concludes that "this free-market system presupposes an appropriate legal system and an appropriate morality. It could not exist and function without them. But once this system exists and functions it raises the moral level of the community still further."⁸

For myself, although I share many of the values Mr. Hazlitt expresses, greatly admire the eloquence of his expression, and probably would list most of the same "appropriate" factors in the "appropriate" systems of legality and morality, I am inclined to think that Wicksteed has the better of the argument. A short time ago I ran across the following unintended tribute to a market in an article of *Life* magazine dealing with drug addiction:

From legal poppy fields in Turkey, by camel across the sands of Syria to the not-so-legal laboratories in Lebanon, then by ship to southern France for final refining, back to Italy and, courtesy of the Mafia, to New York's docks and airports—heroin comes to Harlem. And from Harlem the drug moves swiftly through the city of New York, as efficiently and regularly as milk from New Jersey or fish from Fulton Street. As it moves, the illicit stream swells into pools from which addicts in various parts of the city draw their daily needs. Addicts—and the police—are as aware of the selling location as the housewife is of her neighborhood shopping center.⁹

THERE are several comments that could be made, assuming that the description is accurate, and I have no reason to believe that it is not. But most important, I think, is that the market is amoral, or ethically neutral, or ethically indifferent—use whatever phraseology you please—precisely because individuals and individuals alone can exercise moral judgments. The market system is not an end in itself, although it certainly reflects the moral values of those who engage in it. And this is its great virtue: it puts the ethical question directly up to the individual; it permits one to buy vice or to buy virtue. Indeed, the market has no all-embracing ethic or ethical system

8. *Ibid.*, p. 322.

9. James Mills, "The World of Needle Park," *Life*, LVIII (February 26, 1965), 82.

except that it permits individuals and hence morals to develop—not the appropriate morality but the as yet unknown morality.

Hayek, to whom Hazlitt acknowledges a great debt, points this up admirably:

What we make of our freedom is up to us. . . . If men are to be free to use their talents to provide us with the means we want, we must remunerate them in accordance with the value these means have to us. Nevertheless, we ought to esteem them only in accordance with the use they make of the means at their disposal. . . . It is the glory of the free enterprise system that makes it at least possible that each individual, while serving his fellows, can do so for his own ends. But the system is itself only a means and its infinite possibilities must be used in the service of ends which exist apart.¹⁰

This essay was a lecture by Dr. Kemp also at a recent ISI seminar.—Ed.

10. F. A. Hayek, "The Moral Element in Free Enterprise," *The Spiritual and Moral Significance of Free Enterprise* (New York: National Association of Manufacturers, 1961), p. 33.

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