

# *Benevolence and the Market*

E. C. PASOUR, JR.

THERE IS a growing consensus that collectivism is inefficient as a method of economic organization. The point was well made (though somewhat overstated) recently by Milton Friedman: "Hardly a person in the world will claim today that nationalized industry, or socialism as a method of economic organization is an efficient way to organize things."<sup>1</sup> Indeed, as the British historian Paul Johnson has recently shown, there is abundant evidence that the market system judged by its ability to produce material goods and services is a phenomenon unique in world history.<sup>2</sup> Nonetheless, there is widespread opposition to the market system. This opposition is based largely on moral or ethical issues.

Conservative and libertarian defenders of the market, epitomized by Wilhelm Roepke and Ludwig von Mises, agree that capitalism is the most productive economic system. However, there is no consensus and indeed a basic conflict in the views of Mises and Roepke toward the appropriate criteria for evaluating the market. Mises is an uncompromising advocate of value free economics. As he wrote in *Human Action*:

Praxeology is indifferent to the ultimate goals of action. . . . The only standard which it applies is whether or not the means chosen are fit for the attainment of

the ends aimed at. It takes the ultimate ends chosen by man as data, it is entirely neutral with regard to them, and it refrains from passing any value judgments.<sup>3</sup>

As a utilitarian, Mises holds that the ultimate standard of good or bad for the market or any other institution depends upon whether it is a useful means for helping the "immense majority" attain their chosen ends whatever those ends may be. The free society and its corollary the market economy are desired not because they are desirable ends but because they are necessary for prosperity. For Mises, utilitarian philosophy and classical economics:

. . . recommend popular government, private property, tolerance, and freedom not because they are natural and just, but because they are beneficial. . . . The utilitarians . . . combat arbitrary government and privileges . . . because they are detrimental to prosperity. . . . Economics does not say that . . . government interference . . . is unfair, bad or unfeasible. It says that . . . it makes conditions worse, not better, from the point of view of the government and those backing its interference.<sup>4</sup>

The Mises view expressed here that economic regulation is frequently counter-productive

has been vindicated by a large number of economic studies during the past 15-20 years. However, the idea that economic and social institutions should be evaluated solely in terms of their productive efficiency has not gone unchallenged, and it is increasingly being realized that values are an important issue in any comparison of the market with collectivist alternatives.

The idea of a morally neutral or value-free market was challenged by Wilhelm Roepke—most notably in his book *The Humane Economy*.<sup>5</sup> Roepke and Mises had a great deal in common. Both deplored “scientism”—the uncritical use of techniques applicable in the natural sciences to problems in economics and other social sciences. Both were strong defenders of the market system. Whereas Mises defended free markets on utilitarian grounds, however, Roepke based his defense on ethical grounds, regarding the market as a necessary but not sufficient condition for the attainment of the “good society.” The market for Roepke:

. . . is the only economic order compatible with human freedom, with a state and society which safeguard freedom, and the rule of law. . . . We would uphold this economic order even if it imposed upon nations some material sacrifice while socialism held out the certain promise of enhanced well-being. . . . In other words, the market economy is not everything. . . . we are therefore led back to our main contention that the ultimate moral support of the market economy lies outside the market. Market and competition are far from generating their moral prerequisites autonomously.<sup>6</sup>

Thus, the justification for the market is not that it is necessary for material prosperity. Even if a socialist economy could deliver the material goods, the market would still be preferred by Roepke because it is necessary for freedom and freedom is more important than prosperity. Moreover, the competitive market is not sufficient for a good society, and its existence is “possible only because it is part of a larger whole which concerns not

economics but philosophy, history, and theology.”<sup>7</sup> Since the market requires human traits which must be generated and nurtured by non-market institutions, the ultimate moral support for the market lies outside the market. Roepke, citing such examples as advertising and installment buying, contends that a lack of the requisite traits for effective competition leads to the abuse of freedom. As Meyer emphasizes, however, freedom badly used is a problem inherent in freedom. Freedom implies the right to choose and there is no way to avoid the abuse of freedom in a free society.<sup>8</sup>

This paper is consistent with the thesis that a utilitarian defense of the superiority of the market in terms of productive efficiency is not enough. Although there is increasing interest in the ethical basis of the market economy, there is no consensus concerning the moral or ethical issues involved. There is controversy both about the role of values in a market economy and about the effect of the market on benevolent attitudes. The following analysis of these issues is based on two basic premises. First, there are moral requisites of a market economy. Second, although these human traits are not generated autonomously by the market, it is the economic system most compatible with these traits. The purpose of this paper is to demonstrate that the market, when compared with any alternative system of organizing economic activity in an industrial society, is most consistent with the benevolent instinct. Following a discussion of moral requisites of the market, the paper describes how benevolence is promoted by the market system.

#### *Moral Requisites of the Market*

The market which is based on a system of voluntary contractual relationships cannot operate in a moral vacuum. Moral prerequisites are necessary for a smoothly functioning market just as they are for any other institution based on voluntary agreements. Since the market is based on a system of rights, adherence to a rule of law is required in effecting private contracts. The market based on private property and the free

association of individuals requires honesty and a respect for the rights of other people. Long term contracts, for example, presuppose a sense of moral obligation on the part of market participants. Free associations flourish only where there is a widely shared moral foundation. Roepke, in *A Humane Economy* describes the moral requisites of the market:

Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms—all of these are things which people must possess before they go to market and compete with each other. . . . Family, church, genuine communities, and tradition are their sources.<sup>9</sup>

It is obvious that most market participants don't possess all of these attributes. Although the market's own sanctions operating within a legal system tend to reinforce certain minimum rules of behavior and integrity, an effective legal system presupposes a similar set of virtues. These necessary virtues must be generated by traditional institutions.

Although the ultimate moral support for the market economy lies outside the market, the moral requisites which facilitate voluntary contractual arrangements are affected by the method of organizing economic activity.<sup>10</sup> Each of us is faced with an inevitable conflict between self-interest and benevolent instincts. There is no way to eliminate this conflict, but the market (when compared with collectivist alternatives) will minimize it. Robertson contrasts the role of the economist with the preacher as follows:

There exists in every human breast an inevitable state of tension between the aggressive and acquisitive instincts and the instincts of benevolence and self sacrifice. It is for the preacher, lay or clerical, to inculcate the ultimate duty of subordinating the former to the latter. It is the humbler and often the invidious, role of the economist to help so far as he can in reducing the preacher's task to manageable dimensions.<sup>11</sup>

Robertson sees the market economy as

playing a key role in reconciling our conflicting instincts. The market being based on voluntary relationships can play an important role in the "rule of love"—in maintaining freedom in the sense of non-interference so that decisions stem from tastes and ideals freely developed and freely expressed.<sup>12</sup> The following section of this paper discusses specific ways in which the market minimizes conflicts or promotes benevolence.

### *The Market As A Planning Mechanism*

There are only two ways of planning and allocating economic resources: the market, and central planning.<sup>13</sup> In a market economy, price and profit incentives provide the mechanism by which resources are allocated to various uses, and the price system of the market has long been recognized as important in the discovery and transmission of information.<sup>14</sup> Despite the advantages inherent in a voluntary decentralized system, the subtle operation of the market means that few people either understand it or appreciate its strengths.<sup>15</sup> Even voluntary exchange is not widely understood. An understanding of trade is sufficient to rebut perhaps the most common error in economic analysis—"one man's gain is another man's loss." Voluntary exchange among informed traders must benefit *both* parties.<sup>16</sup> Market transactions are fundamentally different from central planning. In the political arena, there is always a dissatisfied minority when decisions are made on the basis of majority rule. Thus, central planning inevitably involves coercion.<sup>17</sup>

### *Self-Interest is Harnessed by the Market*

Selfish behavior is rightly condemned in many cases. Within a family, for example, food eaten by one person cannot be eaten by other members of the family. Furthermore, in a "good society" there is a vital role for charitable behavior in our inter-personal relationships. Having made the case for benevolence, it is only a short step to the widely held but mistaken view that self interest is always socially unproductive. However, self-interest (as in profit-seeking) is

socially beneficial in market relationships. Two points can be made. First, competition restricts unethical behavior. If the conditions of voluntary exchange are fulfilled, there is widespread knowledge about product availability and quality, prices, wages, and working conditions. Competition by market rivals constrains the ability of firms to "exploit" consumers or workers. Second, the greed motivation is harnessed to a productive use by the nature of the competitive market. Exchange, based on each participant striving to increase his welfare, involves mutual benefit to buyer and seller. Thus, "selfish behavior" is *responsible* for the inter-personal cooperation in the market economy. This "Invisible Hand Doctrine" was enunciated by Adam Smith two hundred years ago:

He generally indeed, neither intends to promote the public interest, nor knows how much he is promoting it . . . he 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 no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.<sup>27</sup>

Another criticism of the market as a planning mechanism was popularized by J. K. Galbraith in *The Affluent Society*. When given freedom of choice, people often choose big cars, "bad" music, "poor" TV programs, etc. which are considered by some people to be immoral or in bad taste. Thus, the market is blamed for doing what presumably one would want an economic system to do—cater to the tastes of individuals. The market tends to give people what *they* want instead of what a particular person or group thinks they ought to want. It responds to consumer tastes whether those tastes are "elevated or depraved." Consequently, criticism of the market for responding to people having poor taste is misplaced since the defect lies in the tastes themselves. As George Stigler has stated, to blame the market for catering to the

desires of consumers is like blaming the waiter in the restaurant for one's obesity problems.<sup>18</sup> The fact that the blame is misplaced becomes clear when the market is understood as a *discovery process* which facilitates the attempts of people to satisfy their material and non-material desires.<sup>19</sup> It transmits price signals based on market forces. The view of the market as a discovery process and signalling apparatus suggests another analogy. To blame the market for responding to the desires of people of poor taste is like blaming the computer used by the person embezzling money from a bank. It should be emphasized that defense of the market as a process which responds to consumer desires does not imply that all such desires are meritorious. The merit of the choices made in the market is a separate issue from the merit of the market system itself. That is, a defense of the market as a mechanism for maximizing individual choice does not imply a defense of popular tastes or of the choices made in the market.

There has been a great deal of talk in recent years of "streamlining the bureaucracy." However, bureaucracy is inherent in all non-market methods of organizing economic activity. If one rejects the market approach of decentralized voluntary exchange, the *only alternative* is some type of centralized decision-making. Thus, the greater the dislike of bureaucracy, the more one should favor the market.<sup>20</sup> Information problems are also an inherent feature of central direction. Mises demonstrated more than a generation ago that there is no way to retain the advantages of the decentralized market based on private property in a centralized system where the state controls all resources.<sup>21</sup> Recent work in the economics of bureaucracy has strengthened this conclusion. The successful bureaucrat, even if deeply imbued with the "public interest," is forced to maximize something tangible such as budget or size of staff since, lacking knowledge of production and consumption opportunities, he has no way to determine what actions would be in the "public interest" (even if the concept could be defined!).<sup>22</sup>

Recently, there has been renewed interest in "economic planning."<sup>23</sup> There are efficiency as well as ethical implications. From the utilitarian perspective, the market is an efficient mechanism for coordinating and communicating information as demonstrated by the "economic calculation" debate of the 1930's.<sup>24</sup> Thus, instead of being unplanned and chaotic, the market is unique in its ability to utilize the knowledge of people for ends whose relative importance is known only by these individuals. The "unplanned" nature of the market is also significant from an ethical standpoint. Utility or satisfaction is a subjectively quantifiable magnitude which is measurable only by the individual decision-maker. The central planner has no way to obtain information on ends and can maximize the payoff from scarce resources only by substituting his estimate of the value scales of other people.<sup>25</sup> If the tastes of the planner are forcibly substituted for those of the people involved, the ethical implications are obvious.<sup>26</sup>

Smith does not rule out a beneficial role for the charitable impulse on the part of the individual. By pursuing self-interest the individual "frequently promotes" that of society more than when he submerges self-interest and really tries to promote the public interest.

Relatively little attention has been directed toward the reason *why* selfish behavior is productive in market relationships. In recent years, the trendy view has held that competition should be replaced by "cooperation." Cooperation, however, is not a viable alternative to the competitive market. If market signals are ignored, the individual has no way to determine which actions are in the "public interest."<sup>28</sup> The Invisible Hand is shackled in the absence of market signals. Thus, in assessing the merits of competition versus cooperation, one must distinguish between *motivation* and *outcome* or results. While motives are important, good intentions are not enough. There is a great deal of evidence that the competitive process of the market when evaluated in terms of *results* serves to minimize social conflicts. Alfred Marshall is

reported to have said that progress chiefly depends on the extent to which the *strongest* and not merely the *highest* forces of human nature can be utilized for the increase of social good.<sup>29</sup> No way has been found by which the highest force of human nature, the benevolent impulse, can be utilized for the public good in the same way that the market utilizes selfish behavior. The market, of course, is not enough. Private charity can play a key role in alleviating distress and is an important activity in any humane society. Benevolence or charity by its very nature implies a voluntary, freely chosen act which by its very nature is most consistent with the decentralized market system. "Public charity" (or "public benevolence") is a contradiction in terms because such benevolence is inevitably coercive.

#### *The Market Maximizes Individual Freedom*

Freedom is defined here in the Hayekian sense as "the state in which a man is not subject to coercion by the arbitrary will of another or others."<sup>30</sup> The power to coerce is a fundamental threat to freedom regardless of whether the coercion is by a dictator or by a democratic majority.<sup>31</sup> There is a relationship between economic freedom and political freedom which is not widely recognized.<sup>32</sup> Effective dissent requires that the dissenter must have available options, but there is no way to preserve such options if all economic activity is controlled by the state. Thus, a viable free enterprise system is a necessary condition for political freedom.<sup>33</sup> Stigler, in a recent paper, contends that political coercion is no more damaging to individual freedom than budget limitations on choice. In Stigler's view:

Whether the state forbids me (by a rationing system) to use more than ten gallons of gasoline a week, or whether I am prevented from doing so by its high price (not including taxes) is of little direct significance to me: in either case my driving is limited by decisions (to ration or to buy gasoline) of my fellow citizens.<sup>34</sup>

This purported identification of freedom with

wealth, however is not convincing. While the individual's driving is limited to the same extent by state rationing and wealth limitations in the immediate moment of time, rationing restricts the range of choice more as conditions change and the individual has more opportunity to make adjustments. Market rationing permits choices which will enable the individual to consume more at a later date when his income increases or when he may prefer to substitute gasoline for other goods.

Despite the demonstrated relationship between economic freedom and political freedom, economists have provided ammunition for attacks on the market by emphasizing "market failure" due to advertising, spillovers, fraud, ignorance, etc. In theoretical welfare economics, real world markets are judged against criteria of an idealized model (perfect knowledge, homogeneous product, free mobility of goods and services, etc.) which real world institutions can never match.<sup>35</sup> However, the same kinds of problems widely alleged to be endemic in markets for goods and services are also present in the market for ideas.<sup>36</sup> Media entrepreneurs, not unlike manufacturers of toothpaste or detergents, strive to differentiate their products in the eyes of consumers by advertising. Spillover problems in the form of ignorance and misleading information are also inherent in the information sector. Results obtained by Gallup, Harris, and other pollsters reveal that most citizens grope in the dark in choosing between candidates, programs, and political parties. Thus, the potential for "market failure" appears fully as great in the information market as in the goods market.<sup>37</sup> This does not imply, of course, that government intervention is warranted in either market. Real world markets must be compared with political institutions *as these institutions operate in the real world*—not with an idealization which is analogous to the idealized "perfect market" of theoretical welfare economics. Restrictions on economic freedom can only be justified if the "imperfections" of the market are worse than those of the political system.<sup>38</sup>

Finally, when substituting benevolence for market outcomes, it should be recognized that there is possible conflict between benevolence and individual freedom. Benevolence toward another person is often based on self-serving motives and frequently entails restrictions on his behavior.<sup>39</sup> Indeed, when the diversity of individual wants and preferences is taken into account, even the golden rule cannot always be used as a criterion of benevolent activity. As George Bernard Shaw observed: "Do not do unto others as you would have that they do unto you. They may have different tastes." Benevolence may also adversely affect self-responsibility. Freedom implies responsibility, and the freedom of the market system places responsibility on the individual. There is no way an individual can be responsible for his actions unless he bears the consequences of bad decisions as well as good. Consequently, benevolent attempts to insulate the individual from the consequences of bad decisions are antithetical to personal responsibility as well as to the operation of the market. In market terminology, losses as well as profits provide useful signals.

#### *Freedom and Social Justice*

It is frequently alleged that the market, which rewards members of society on the basis of their contribution as measured in the marketplace, is not consistent with "social justice." Kristol holds that the term "social justice" is used to seek moral approval of demands which have no moral justification, and that it has an "irredeemably egalitarian and authoritarian thrust."<sup>40</sup> Hayek points out why the concept of social justice is empty and meaningless in a free society:

For in such a system in which each is allowed to use his knowledge for his own purposes the concept of social justice is necessarily empty and meaningless, because in it nobody's will can determine the relative incomes of the different people, or prevent that they be partly dependent on accident. "Social justice" can be given a meaning only in a directed or command economy (such as an army) in which the individuals are ordered what to do. . . .<sup>41</sup>

Since the only alternative to price signals in allocating resources is command by central authority, a central planner would have to decide both the tasks for individuals and the remuneration for various jobs. In this process, individuals would be forced to submit to great inequality both in kinds of work and in the associated rewards. Freedom of choice would surely suffer since the process must involve the uncontradictable decision of authority rather than the impersonal, voluntary decentralized procedures of the market.<sup>42</sup> Thus, the idea of "social justice" assumes not only that the state can have and would have knowledge as to what everyone merits in terms of income but also that the state will intervene to bring about this condition. The market, in contrast, stands for equality of economic opportunity understood to mean the absence of artificial barriers to economic activity.

There are many people especially in the media, government, and the non profit sector who feel that they know better than the market how rewards *should* be distributed. Kristol vividly depicts the attempts by this "new class" to achieve its goals:

This group does not want people to be recompensed on the basis of contributions to the *economy*, which is the capitalist definition of justice, but on the basis of their contributions to the *society*—as the group determines the worth of that contribution. . . . They are going to use the authority of government to achieve "social justice." . . .<sup>43</sup>

In connection with demands for "social justice," egalitarians have also made associated claims in terms of economic rights. The recent "right to food" resolution before the U.S. Congress proclaimed a right to food by human beings world wide. Such positive rights, however, demand as their counterpart that someone must provide what others have the purported right to. One person can hardly have a right which implies an unchosen obligation on the part of other people. Thus, "economic rights" are incompatible with a free society.<sup>44</sup>

### *Capitalism Reduces Conflicts*

Most people will agree with Roepke that certain moral requisites are essential to a "good society." Arrow contends that the market makes a virtue of selfishness and is inimical to these attributes.<sup>45</sup> This paper rejects that view. It is instead contended that central direction will inevitably increase conflicts between individuals. Moreover, the consequent increase in conflict between self-interest and benevolence will adversely affect moral standards. Consider the socialist emphasis on *distribution* rather than on *production*. The idea that distribution is the major problem facing society is clearly made in poetic form by Heinrich Heine which, according to Werner Sombart, "contain in concise form the entire program of proletarian Socialism:"<sup>46</sup>

There grows enough bread here below  
For man, the whole world over,  
And roses, myrtle, beauty and joy,  
And sugar-peas, moreover.

Yes, sugar-peas for every one  
Soon as the thick pods farrow!  
Ah, heaven gayly we bequeath  
The angel and the sparrow!

If distribution were, in fact, *the* economic problem as indicated by the foregoing poem, then the egalitarian rhetoric of socialism would be less damaging. In reality, the stress on distribution is inevitably a source of conflict. If production is taken as given, why should there be a link between accomplishment and reward? And, why *should* one person have more than any other? Thus, redistribution rhetoric fans the smoldering fires of envy. Of course, envy is a pervasive frailty which will be present under any form of economic system. Although not denying the importance of envy, Mises contends that capitalism leads to resentment of frustrated ambition because "the principle, to each according to his accomplishments, does not allow of any excuse for personal shortcomings."<sup>47</sup> Despite the failure of many people to admit their own shortcomings, few people are likely to be attracted to a system in which

there is no relationship between rewards and accomplishments. In a world where production cannot be taken for granted, it would be difficult indeed to make a case for the humaneness or benevolence of an economic system where there is no linkage between rewards and productivity.<sup>48</sup>

Conflicts between benevolence and self-interest are inevitable. The following example concerning the allocation of home heating fuel, gasoline, and other sources of energy suggests *why* conflicts are likely to be less when resources are allocated through the market. Under the market system, the individual heats his home to the desired level, takes a vacation of the desired distance, and otherwise decides on the use of various forms of energy depending upon energy prices, his income, and preferences. Each consumer, operating within his budget constraint, can choose as much of each form of energy as desired at the market price. Thus, conflicts between consumers as well as between consumers and producers are minimized.<sup>49</sup> Under non-price rationing on the otherhand, shortages are the inevitable result as prices are arbitrarily reduced below the market level. The shortage creates an immediate conflict between benevolence and self-interest on the part of the fuel user. When there is a shortage at the administered price, the decision by Jones to use more fuel means that there will be less fuel for his neighbor Smith to use. How can a homeowner of strong benevolent instincts know whether he should heat his home to 68°F, 65°F, or 60°F? How can he decide whether he should vacation near home or take a long-planned-for trip to the West Coast? Price controls also increase conflicts between producers and consumers. Since consumers cannot purchase all they wish at the controlled price, consumers and public officials blame sellers for the shortage! Natural gas producers in 1977, for example, were alleged by Secretary of Interior Adams to be acting against the "public interest" by holding back on production. If a producer does not follow market signals he has no objective basis to determine what production decisions are in the public interest. What

*should* motivate producers if not prices and profits?

In practice, nonprice rationing heightens the strongest (not the highest) forces of human nature causing consumers and producers to "beat the loaders," try to get a favorable place in the queue, sell on the "black market," etc. Politicians and civil servants are also under immense temptation when products (or resources) are allocated by administrative controls.<sup>50</sup> In the real world, we observe that self-interest in the form of special interest legislation to gain votes and of bribes to gain special favors often dominate the benevolent instinct. Another related problem arises when self-discipline and other necessary requisites for a free society are weak. The individual acting together with other people of similar interests comes to view the state not as an agency to make and enforce the rules of the game but rather as a force to be used to advance the interests of the group. Each special interest group (farmers, teachers, labor unions, oil companies, etc.) benefitting from government action in the form of subsidies, price supports, import quotas, etc. is faced with a dilemma. Each group on grounds of principle may well prefer the market approach. Instead, each group finds it expedient to justify not only the governmental largesse currently received but to make a case for increased state aid. The conflict between benevolence and self-interest is inevitably heightened the more organizations of special interest use the state to achieve their own ends.<sup>51</sup> There is increasing interest in this basic political problem of democracy.<sup>52</sup>

#### *Capitalism Respects and Promotes Individuality*

Individuality is reflected in the division and specialization of labor.<sup>53</sup> The efficient division of labor hinges on economic calculation which requires private property. Thus, the range of individual choice will necessarily be circumscribed in the absence of the division of labor which can reach its full potential only through the market system. There is, therefore, an inherent relationship between the market and the variety and diversity among

people. Stated differently, the market offers maximum scope for personal eccentricity and diversity of individual tastes.<sup>54</sup> If the price of home heating fuel increases, for example, people will economize in different ways depending upon their own subjective evaluations. These moves to economize include increasing the amount of insulation, closing off rooms, reducing the temperature in all rooms, and moving to a smaller house. Under central direction, on the other hand, an attempt is made to force everyone (or at least a large group of people) to meet a similar standard. Consider the use of gasoline. If the same amount of gasoline (e.g., 10 gallons per car per week) is allocated to each motorist, people in different circumstances will be affected in widely different ways. Some people live near their work—some live far away; some can easily carpool—others don't have this option; some have large cars—others have small cars; some people prefer to vacation near home—others prefer to travel. There is no way a central planner can cater to the diversity of individual tastes or take into account the individual differences of people in literally millions of different circumstances. Thus, under central direction, the fundamental inequity of treating people in unequal circumstances in the same way is ignored. It is ironic that pleas for economic controls are made in the name of fairness, equity, and justice.

### *Conclusions and Implications*

Although a great deal of effort has been devoted to a utilitarian defense of the market, the relationship of the market to ethical or moral considerations has been given short shrift.<sup>55</sup> Yet, free institutions have value beyond their ability to increase material output. Furthermore, people support statist measures for moral reasons. Thus, a successful defense of the market as a way of organizing the production of goods and services must confront the moral or ethical issues.<sup>56</sup> Most people of the West place emphasis on the dignity of the individual. Capitalism is the only economic system which stresses the worth of the individual. Capital-

ism, a system based on voluntary exchange, maximizes choice by allowing each person to do whatever he wishes as long as he respects the property rights of others. In maximizing the scope of free choice by individuals, the market thereby minimizes the amount of coercion.<sup>57</sup> Thus, the market approach is closely related to individual freedom. Freedom refers to the power to choose and a distinction must be made between the merits of freedom and the desirability of behavior which freedom permits. A defense of the market as a mechanism which permits maximum latitude for individual choice does not mean that all choices are accepted as equally moral. Freedom implies choice and, as Meyer stresses, virtue cannot be achieved by political means:

The contradiction in the condition of man—that he can only achieve the good if he is free to reject it—has its reflection in the political sphere. The political enforcement of the good is only possible if the freedom which men must have to seek the good is destroyed.<sup>58</sup>

More emphasis should be placed on the relationship between human traits and collectivist methods.<sup>59</sup> What effect, for example, do price controls and other futile attempts to override market signals have on respect for the Rule of Law?<sup>60</sup> Friedman sees a relationship between the social responsibility doctrine (associated with central direction) and the moral climate?

Why have we had such a decline in moral climate? I submit to you that a major factor has been a change in the philosophy which has been dominant, a change from belief in individual responsibility to social responsibility. If you adopt the view that a man is not responsible for his own behavior, that somehow or other society is responsible, why should he seek to make his behavior good.<sup>61</sup>

Despite the evidence that collectivism erodes the human traits necessary for a good society, these traits are not generated by the market. Davenport persuasively argues for a closer

relationship between economics and philosophy. An effective market system requires an "envelope of law." Yet, law in the final analysis:

. . . rests not just on the sovereign power of the state but on deeply held moral convictions, and on consensus as to what is right and what is wrong. If everyone disregards traffic lights, all the policemen in the country will not unsnarl the resulting traffic jam. . . . If all men are dishonest by nature, then our stock exchanges may as well close their doors. But more, democracies, no less than kingdoms require appeal to a higher ideal if they are not to turn into tyrannies.<sup>62</sup>

A basic strength of the market from a moral standpoint lies in its harnessing of the *strongest* force of human nature, self-interest, and its ability to direct this force into a *productive* outlet. That is, the market taking people as they are converts their energies to widely beneficial results more effectively than any other known method of organizing economic behavior.<sup>63</sup> Why, then, is the market

under relentless attack? Many of the criticisms of the market arise as a result of comparing real world markets with an idealized Utopia. In any realistic comparison, real world markets must be compared with the real world alternative—central direction with the attendant bureaucracy, coercion, and other "imperfections" of real world political solutions that are more difficult to correct.<sup>64</sup> This approach also sheds light on the humaneness of the market. No known system of economic organization is fully consistent with man's benevolent instincts. It is only when the market is compared in this respect with real world alternatives that its strengths clearly emerge.<sup>65</sup> The approach of focusing on the shortcomings of the market without considering the problems inherent in any attainable alternative brings to mind the trenchant Churchillian critique of democracy—"Democracy is the worst form of government with the exception of all the rest." One might state the benevolent case for the market in similar Churchillian fashion—"Capitalism is the least benevolent form of economic system with the exception of all the rest."

<sup>1</sup>Milton Friedman, *The Economics of Freedom* (Cleveland, Standard Oil Co., 1978), p. 9. <sup>2</sup>Paul Johnson, "Has Capitalism a Future?" *The Freeman*, January 1979, pp. 47-50. <sup>3</sup>Ludwig von Mises, *Human Action* (Chicago: Henry Regnery Co., 1966), pp. 15-21. <sup>4</sup>*Ibid.*, pp. 175 and 764. <sup>5</sup>Wilhelm Roepke, *A Humane Economy* (Chicago: Henry Regnery Co., 1960). <sup>6</sup>*Ibid.*, p. 125. <sup>7</sup>*Ibid.*, p. 92. <sup>8</sup>"Unless men are free to be vicious they cannot be virtuous." Frank S. Meyer, *In Defense of Freedom* (Chicago: Henry Regnery Co., 1962), p. 166. <sup>9</sup>Wilhelm Roepke, *op.cit.*, p. 125. <sup>10</sup>George J. Stigler, *The Intellectual and the Market Place and Other Essays*, (London: Collier-Macmillan Ltd., 1963). <sup>11</sup>Sir Dennis H. Robertson, "What Does the Economist Economize?" pp. 147-154 in *Economic Commentaries* (Westport, Conn.: Greenwood Press, 1956), p. 148. <sup>12</sup>Clarence Philbrook, "Capitalism and the Rule of Love," *Southern Economic Journal*, April 1953, Vol. XIX(4): 458-466. <sup>13</sup>Milton Friedman, *Price Theory* (Chicago: Aldine, 1976), p. 8. <sup>14</sup>F.A. Hayek, "The Use of Knowledge in Society," pp. 77-91 in *Individualism and Economic Order* (University of Chicago Press, 1948). <sup>15</sup>*Ibid.*, p. 87. <sup>16</sup>Jack Hirshleifer, *Price Theory and Applications* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1976), Chapter 7. Is trade mutually beneficial when fraud is involved? In this case, there is no actual agreement so that fraudulent transactions do not meet the conditions of mutually voluntary exchange.

<sup>17</sup>W.C. Mitchell, *The Anatomy of Public Failure: A Public Choice Perspective* (Los Angeles: International Institute for Economic Research, Original Paper 13, June 1978), pp. 8-9. <sup>18</sup>Stigler, *op.cit.*, p. 90. <sup>19</sup>I.M. Kirzner, *The Perils of Regulation: A Market-Process Approach*, A LEC Occasional Paper (Coral Gables: Law and Economics Center, 1978). See also W.H. Hutt, "The Neutrality of the Market" in *Proceedings of the Market Mechanism in a Free Enterprise System*, Center for Business Services, College of Business Administration, The University of Texas at Arlington, 1977. <sup>20</sup>Assar Lindbeck, *The Political Economy of the New Left, An Outsider's View* (New York: Harper and Row, 1971), pp. 32-33. <sup>21</sup>Ludwig von Mises, *Socialism* (London: Jonathan Cape Ltd., 1951). <sup>22</sup>W.A. Niskanen, Jr., *Bureaucracy and Representative Government* (Chicago and N.Y.: Aldine, Atherton, 1971). <sup>23</sup>F.A. Hayek, "The New Confusion About 'Planning,'" *Morgan Guaranty Survey*, January 1976. <sup>24</sup>F.A. Hayek, "Socialist Calculation II: The State of the Debate (1935)," pp. 148-180 in *Individualism and Economic Order* (University of Chicago Press, 1948). <sup>25</sup>J.M. Buchanan, "Positive Economics, Welfare Economic, and Political Economy," *Journal of Law and Economics*, Vol. 2, October 1959, pp. 124-138. <sup>26</sup>The distinction between efficiency and ethical considerations is not as clearcut as the preceding discussion suggests. Efficiency properly defined must be based on individual preferences. <sup>27</sup>Adam Smith, *The*

*Wealth of Nations*, Modern Library Ed. (New York: Random House, 1937), p. 423. <sup>28</sup>E.C. Pasour, Jr. "Information Aspects of Alternative Economic Systems," *The Alternative*, Vol. 6, No. 4, January 1973. <sup>29</sup>D.H. Robertson, *op.cit.* <sup>30</sup>F.A. Hayek, *The Constitution of Liberty* (Chicago: Univ. of Chicago Press, 1960), p. 11. <sup>31</sup>A.A. Ekirch, Jr., *The Decline of American Liberalism* (New York: Atheneum, 1976), pp. 1-2. <sup>32</sup>Milton Friedman, *Capitalism and Freedom* (Univ. of Chicago Press, 1962), Ch. 1. <sup>33</sup>Mises, 1951, *op.cit.*, p. 589. <sup>34</sup>G.J. Stigler, "Wealth and Possibly Liberty," *Journal of Legal Studies*, V. 7, June 1978, p. 216. <sup>35</sup>Mitchell, *op.cit.*, Also see S.C. Littlechild, *The Fallacy of the Mixed Economy* (London: The Institute of Economic Affairs, Hobart Paper 99, 1978), p. 38. <sup>36</sup>R.H. Coase, "The Market for Goods and the Market for Ideas," *American Economic Review* Vol. 64(2): pp. 384-391. <sup>37</sup>E.C. Pasour, Jr., "Policemen of the Press," *Reason* Vol. 8, No. 5, September 1976, pp. 28-30. <sup>38</sup>G.S. Becker, "Competition and Democracy," *Journal of Law and Economics*, Oct. 1958, pp. 105-109. <sup>39</sup>Eric Hoffer, *The True Believer* (N.Y.: Harper and Row, Perennial Lib., Ed., 1966), p. 23. <sup>40</sup>Irving Kristol, "A Capitalist Conception of Justice," in *Ethics, Free Enterprise and Public Policy*, R.T. DeGeorge and J.A. Pickler (eds.) (NY: Oxford Univ. Press, 1978), p. 57. <sup>41</sup>Hayek, *The Mirage of Social Justice*, p. 69. <sup>42</sup>*Ibid*, pp. 82-83. <sup>43</sup>Kristol, 1978, *op.cit.*, p. 67. <sup>44</sup>Hayek, *The Mirage of Social Justice*, p. 103. <sup>45</sup>K.J. Arrow, *The Limits of Organization* (N.Y.: W.W. Norton and Co., 1974), p. 21. <sup>46</sup>Werner Sombart, *A New Social Philosophy* (New York: Greenwood Press, 1969), p. 98. <sup>47</sup>L. von Mises, *The Anti-Capitalistic Mentality* (South Holland, Ill.: Libertarian Press, 1972), pp. 11-12. <sup>48</sup>Marc F. Plattner, "The Welfare State vs. the Redistributive State," *The Public Interest*, No. 55, Spring 1979, pp. 28-48. <sup>49</sup>E.C. Pasour, Jr., "Austerity, Waste, and Need," *The Intercollegiate Review*, Vol. 13, No. 2, Winter-Spring, 1978, pp. 79-85. <sup>50</sup><sup>51</sup>The fact is that corruption is the shadow of socialism.

. . . Where wealth is truly earned and traded in the market the scope for corruption becomes trivial." M.C. O'Dowd, "The Problem of 'Government Failure' in Mixed Economies," *South African Journal of Economics*, Vol. 46, No. 4, Dec. 1978, pp. 360-370. <sup>51</sup>Milton Friedman, "The Paternal State," *Newsweek*, January 22, 1979. <sup>52</sup>Littlechild, *op.cit.*, pp. 78-79. <sup>53</sup>Murray N. Rothbard, "Freedom, Inequality, Primitivism, and the Division of Labor," *Modern Age*, Vol. 15, No. 3, Summer 1971, quote from pp. 3-5 in reprint by Institute for Humane Studies, Inc., Menlo Park, CA., 1971. <sup>54</sup>James B. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: The Univ. of Chicago Press, 1975), p. 18. <sup>55</sup>In Stigler's view, an increase in wealth expands choice and, hence, freedom. Stigler, 1978, *op.cit.* In this view, if capitalism increases wealth it also increases liberty by expanding choice. If Stigler's view were widely held, the humaneness (or benevolence) of the market would be considerably reduced as an issue. <sup>56</sup>Neil Howe, "Defending Capitalism," *The Alternative*, March 1974. <sup>57</sup>Fisher suggests that socialism can best be "described as a system of minimized individual choice." Antony Fisher, *Fisher's Concise History of Economic Bungling* (Ottawa, Ill.: Caroline House Books, 1978), p. 29. <sup>58</sup>Meyer, *op.cit.*, p. 66. <sup>59</sup>Leland B. Yeager, "Pareto Optimality in Policy Espousal," *Journal of Libertarian Studies*, Vol. 2, No. 3, Fall 1978, p. 207. <sup>60</sup>Michael Parkin, "Wage and Price Controls: The Lessons from Britain," pp. 101-131 in *The Illusion of Wage and Price Control* (Vancouver, Canada: The Fraser Institute, 1976), p. 128. <sup>61</sup>Friedman, 1978, *op.cit.*, p. 11. <sup>62</sup>John Davenport, "From a Western Window: Economics and Philosophy have Need of Each Other," *Intercollegiate Review*, 8 (Spring 1973): 153. <sup>63</sup>Furthermore, individuals pursuing their own interests in the market will further the aims of many other people, most of whom they will never know. Hayek, *The Mirage of Social Justice*, p. 145. <sup>64</sup>Harris and Seldon, *op.cit.*, p. 5. <sup>65</sup>Philbrook, *op.cit.*