

MARKETS
MORALS
AND
COMMUNITY

Alan Hamlin ■ Herbert Giersch
■ Andrew Norton

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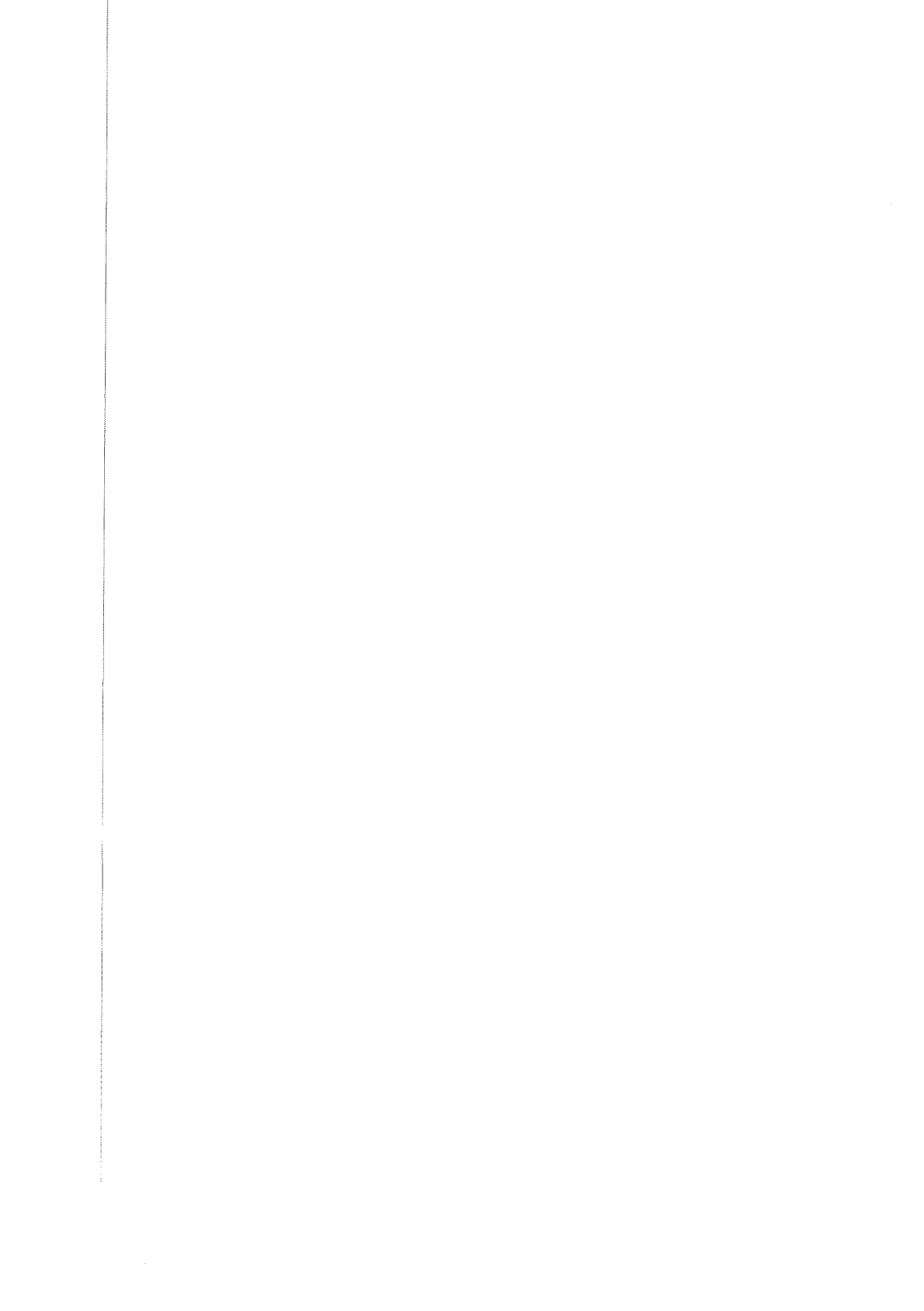
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Key Points

- markets have a moral *basis* in the moral character required of participants in markets
- the *scope* of markets depends on which aspects of society are open to market mechanisms
- the moral *evaluation* of markets concerns the normative assessment of market processes and outcomes
- self-interested behaviour is necessary for markets to allocate resources efficiently
- the market does not assume individual self-interest; it can be the interest of a group
- there is little evidence that markets encourage individually self-interested behaviour in spheres of life where it is not appropriate
- the prosperity of markets allows people to give priority to non-material concerns
- the market can economise on virtue by generating desired outcomes even where people do not have moral intentions
- the market can reward moral behaviour, e.g. people will do business with those who have reputations for honouring promises
- moral business behaviour is efficient because it cuts transaction costs
- the reputation of a person or region is part of its intangible capital
- locational competition encourages the maintenance of economic morality
- the efficiency argument for markets is that they make everyone better off
- the procedural argument for markets is that they are supportive of autonomy and liberty
- the feasibility argument for markets is that they best deal with the informational problem of what to produce, how to produce it, by whom and for whom

About the Authors

Alan Hamlin is Reader in Economics at the University of Southampton. He is the author of *Ethics, Economics and the State* (Wheatsheaf, 1986) and co-edited with Samuel Brittan *Moral Capitalism and Market Values* (Edward Elgar, 1995), from which his essay in this volume is extracted. He is a frequent visitor to the ANU and is currently working with Professor Geoffrey Brennan on a book analysing the foundations of liberal constitutionalism.

Herbert Giersch is Emeritus Professor of Economics at the University of Kiel. He is the author of *The Ethics of Economic Freedom* (CIS, 1989) and co-author of *The Fading Miracle: Four Decades of Market Economy in Germany* (Cambridge University Press, 1992). He was President of the Mont Pelerin Society from 1986 to 1988. His essay in this volume is a revised translation of a lecture to the Max Planck Institute for Research into Economic Systems, Jena, Germany.

Andrew Norton is Editor of *Policy*, the quarterly journal of the Centre for Independent Studies. He was a co-editor of *A Defence of Economic Rationalism* (Allen & Unwin, 1993), and co-contributor to *Shaping the Social Virtues* (CIS, 1994). This chapter is a substantially revised version of 'Social Ties and Intellectual Knots', which appeared in *Australian Quarterly* 68(1):53-64.

Foreword

Michael Pusey, briefly a prominent critic of Australia's economic liberalisation, once proclaimed that 'today's market is the deadly enemy of the society it was supposed to serve'. Pusey's view is extreme, but it is in a tradition of hostility toward markets fostered by intellectuals of both the Left and Right, interest groups fearing competition, and populist politicians.

Opposition to markets, in this tradition of thought, is not primarily economic. Rather, the claim is that markets undermine social ties and encourage immorality. In doing so, the argument goes, markets are not only bad in themselves but ultimately unsustainable. Without a means of socialising individuals or enforcing moral behaviour, market societies will eventually descend into disorder, making economic activity impossible.

Similar arguments have been raised for centuries, and perhaps the disputes they create will never finally be settled. However, progress can be made. Alan Hamlin's essay 'The Moral of the Market' makes no claim either way on the morality of markets, but is valuable in clearly setting out the issues. He identifies three different ways in which we might assess markets. We can look at the moral *basis* of markets, to see, for example, whether markets erode the moral character of those who experience them, and by so doing undermine the market's own moral preconditions. We can examine the moral *scope* of markets, to decide, for example, which activities should be organised by the market. We can make a moral *evaluation* of markets, to judge the consequences of market processes.

While it is necessary to make these moral assessments, doing so involves considering many empirical questions. Andrew Norton's chapter, 'The Market Mentality', compares claims that markets encourage anti-social attitudes and behaviour with the empirical evidence. He finds that in many cases there is little or no evidence that markets have the negative effects alleged by their critics. Contrary to what many believe, markets do not especially promote 'selfish' behaviour. Rather, markets accept as given that people tend to pursue their self-interest, but find ways of channelling that pursuit into valuable social ends. For example, competitive markets encourage producers to cooperate with their staff and customers.

Herbert Giersch's chapter, 'Economic Morality as a Competitive Asset' is more speculative than the other two papers, but contains ideas

relevant to not just the debate over markets, but also to the on-going reassessment of federalism. Giersch notes that, with economic globalisation, places increasingly compete for business. Those with a reputation for economic morality will attract more investment, since honest and reliable business practices contribute to efficiency. This has interesting implications. As people become aware of the need for their city or region to compete for investment, they will recognise the need to enforce economic morality, both through appropriate design of economic institutions and the social sanctions applied to business people. This points to a way in which the market does not just draw on reserves of morality created by other institutions, but is self-sustaining. The market for places, by creating competition between locations, encourages them to maintain the economic morality on which the market system depends. This insight provides a further reason for believing that competitive federalism will improve economic performance.

Greg Lindsay
Executive Director

Chapter One

The Moral
of the
Market

ALAN HAMLIN



The Moral of the Market

Alan Hamlin

Introduction

Although it is only a subset of the debate on the links between ethics and economics, the debate on the relationship between market capitalism and moral values is complex and multi-dimensional. The major purpose of this chapter is to offer an overview of the debate as a whole within which particular arguments can be set.

How might the relationship between market capitalism and morality be analysed? Without any claim to either originality or completeness, it is useful to identify three aspects of this relationship:¹

1. Market capitalism might itself depend upon the satisfaction of moral background conditions and, in particular, on the moral beliefs and views of individual agents. We might term this the moral *basis* of markets. The potential problems here include the possibility of incompatibility between the moral character of individual agents required to satisfy the background conditions for markets to exist, and the character of agents required to operate efficient markets. A second potential problem derives from the possibility that the operation of market capitalism might causally influence the moral beliefs and views of individual agents, so that the moral background conditions may be eroded over time.

2. Moral considerations might also arise in determining the range of application of market capitalism – that is, in determining which aspects of society should, and should not, be allocated to the ‘market sphere’.² We might term this the moral *scope* of markets. Problems arising in this area include the substantive questions of whether this or that

1 This categorization might be thought of as a more detailed view of just one part of the categorization of the relationship between ethics and economics offered by Hausman and McPherson (1993) and discussed in Brittan (1995).

2 This usage of ‘market sphere’ echoes the usage of Walzer (1983) and Anderson (1990, 1993).

activity should be mediated through the market, and the more formal question of how the moral limits of the market sphere might be determined in principle.

3. Even within the market sphere, a further set of moral questions arises concerning the normative assessment of market processes and outcomes themselves. We might term this the moral *evaluation* of markets. Problems arising in this area include the normative questions associated with inequality and poverty in market economies, and the moral arguments for intervention in market processes or outcomes.

Of course, these three aspects of the relationship between morality and markets interact with one another. It should, for example, be obvious that any discussion of the moral scope of the market must depend to some extent on the views taken about the moral evaluation of the market. Nevertheless, I would claim that the distinctions between these three aspects are sufficiently clear for them to provide a useful starting point. The main body of this chapter will be structured to discuss each of these aspects in turn. But first it is appropriate to identify some general concerns with the application of moral arguments at the institutional level, and sketch the general lines along which normative arguments in support of the market are constructed.

Morality and Institutions

Before delving into the morality of the market in more detail it is worthwhile pausing to consider the nature of that inquiry. In particular, we might ask is the market as an institution the sort of thing which can be the subject of moral inquiry? Some would argue that the only proper subjects for moral inquiry are moral agents rather than institutional structures. Thus, the character and actions of individuals may be considered from the moral standpoint, but not the circumstances in which these individuals act. This seems clear where the circumstances are themselves entirely outside of control – as might be the case with the climate. Here we might agree that it would be meaningless to speak of the morality of rainfall, or of a hurricane. But where the circumstances are social rather than physical or natural, the argument seems less clear.

Hayek (1960) suggests that it is no more sensible to discuss the

morality of the market as an institution than it is to discuss the morality of the climate. The basis of this argument is that the outcomes of the market are not directly chosen or intended by any individual – but are rather the unintended outcome of a myriad of separate and independent decisions mediated through the institution of the market. This argument seems to take the market as a simple social fact – just as the climate might be taken as a simple natural fact – beyond the control of agents. However, the idea of discussing the morality of the market seems to be predicated on the idea that the market is not beyond our control, but that we can at least to some extent influence the institutional structure in which we operate. Of course, such influence must be exercised within the constraints of feasibility – and much of Hayek’s argument can be read as a warning against the dangers of Utopian social planning of all types – but these constraints leave some discretion and it is here that the questions of morality must be relevant.

This leads to a secondary issue. If the market is a proper subject for moral inquiry, how should that inquiry be conducted? In particular, it is clear that social outcomes will depend partly on the characteristics of social institutions and partly on the characteristics of the individuals operating within those institutions. If we are to inquire about the morality of the institutions, what should we assume about the characters of the individuals? Four possibilities seem particularly salient. First, we might assume that individuals are themselves moral, so that we focus on the possibility that institutional failings might subvert the morality of society.³ Secondly, we might assume that individuals are immoral, so that we focus on the possibility of institutions rescuing society from immorality. Thirdly, we might assume that individuals are amoral, so that we focus on the moral properties induced by institutions against a morally neutral background. Fourthly, we might attempt to model individuals as they actually are, a complex and heterogeneous mix of morality and immorality, so as to focus on predicting the actual outcomes of any particular institutional arrangement.

Each of these approaches has its merits, and it might be particularly interesting to view institutions under a variety of assumptions about individual moral character, but to the economist the two major alternatives must be the third and fourth. The assumption that each individual is a prudent but essentially amoral maximiser of his or her

3 When the voting procedure advocated by Jean-Charles de Borda was criticised on the grounds that it set up incentives for strategic voting and manipulation, Borda responded that, ‘my scheme is only intended for honest men’ (quoted in Black 1958:152). Some might think this an inadequate response.

own utility is not descriptively accurate, but neither is self-interest the most pessimistic assumption. The choice between descriptive accuracy and the moderate pessimism and moral neutrality of assuming individuals to be amoral must be made on methodological grounds.

Brennan and Buchanan (1983) argue that, even if we had available to us a descriptively accurate model of the moral character of individuals, we should use the more pessimistic, amoral, model when analysing alternative institutional frameworks with a view to institutional or constitutional reform. The argument is essentially that institutions form a sort of insurance – that they should be robust against minor variations in the character of individuals and should perform reasonably even when individuals do not. This is the basic insight contained in the frequently quoted remark of David Hume's that:

... in constraining any system of government, and fixing the several checks and controls of the constitution, every man ought to be supposed a knave, and to have no other end, in all his actions, than private interest (Hume 1777/1985:42).

Although this argument was originally aimed at the design of political institutions, it applies with equal force to social institutions in general.

A second point concerns the moral neutrality of the assumption of self interest. This relates to the basic structure of 'invisible hand' arguments in which desired outcomes are generated by the institutional structure – that is, the pattern and form of relationships between agents – rather than by direct appeal to the motivations of the agents themselves. The choice of the assumption of amoral agents then focuses attention on the search for invisible hand mechanisms – mechanisms which economise on virtue in the sense that they do not require virtuous agents.

This is important both because of the special power of invisible hand arguments and because of the limitations of such arguments. For example, one type of social institution which will not appear to be effective under the assumption of amoral agents, but which may work in practice, is the type of institution which seeks to select the more moral members of a society, or socialise certain individuals to particular moral standards, in order to place them in certain significant roles. The 'public service tradition' so evident in the British civil service in the late 19th and early 20th century might be an example of an attempt to socialise individuals into a particular outlook, while the method of selecting and rewarding judges (usually involving a significant reduc-

tion in salary) might provide an example of a screening process. Such institutions are not invisible hand mechanisms since they depend on the existence of 'more moral members' of society. The aim with this type of institution is to amplify the social effects of existing moral character, and if this is the type of institution of interest, it would be more appropriate to base analysis on a plausibly realistic view of moral character.

In short there is a role for both the amoral assumption and for greater descriptive realism. Each approach focuses on a different type of institutional effect – the invisible hand case and the 'amplification' case. Excessive reliance on either approach may divert attention from the variety of ways in which institutions may operate to influence outcomes for better or for worse.

Normative Support for the Market

The market is an institutional structure for decentralised decision-making on the questions of what is to be produced, by what method, by whom and for whom. As normally conceived, the market system is not an all-enveloping social institution, but is embedded within a wider set of institutions which together characterise a society. Some of these institutions have relatively clear structures – such as the law – while others are more amorphous in nature – such as the social customs and norms which provide the context for many social interactions. It is this simple fact that the market is one social institution among many that points to the importance of the question of the moral *scope* of markets.

Normative arguments in support of a relatively wide-ranging and free market system come in a wide variety of forms. It is useful to identify three key ingredients which arise in differing combinations in many of these arguments: an efficiency ingredient, a procedural ingredient and a feasibility ingredient.

The efficiency ingredient focuses on the outcomes of free markets and, in its most powerful form, argues that the outcome of utility-maximising behaviour in the context of a full set of competitive markets is efficient in the Paretian sense of no change being possible that would advantage all or advantage some without harming others. This is the fundamental theorem of welfare economics, which may be thought of as a formalisation of Adam Smith's claim concerning the invisible hand property of the market mechanism.

A point to notice here is that the fundamental welfare theorem depends on the assumption of rational and own-utility maximising

individuals just as much as it depends on a full set of competitive markets.

The procedural ingredient to the arguments in support of markets picks up on two clear moral values – autonomy and liberty. Autonomy, in this setting, might be construed as indicating the ability of individuals to determine their own life-plans and their own ends, while liberty might be construed as indicating the ability of individuals to act in accordance with their own plans with a minimum of interference. The market is then claimed to offer an environment which is particularly supportive of both autonomy and liberty – autonomy to the extent that the market recognises each individual's preferences as sovereign, so that there is no paternalistic determination of ends, and liberty to the extent that the voluntary actions involved in trading reflect the absence of coercion.⁴

The feasibility ingredient switches the focus of attention away from substantive moral claims concerning either the market mechanism or its expected outcomes and towards the constraints imposed on any decision-making procedure faced with the challenge of the key economic questions – what to produce, how to produce it, by whom and for whom. The key constraint in this context is often seen – following Hayek (1937, 1945) – as informational. The point here is that any decision-making system must take account of the radically distributed nature of information about technology, talents and tastes; so that the key attribute of any system must be its ability to operate in such an informational environment, and to provide mechanisms which reveal relevant information. The market is seen as uniquely capable in this respect.

The Moral Basis of the Market

I have already noted that the market can only be seen as one institution among many, embedded within society and supported by a wide range of other institutions. The first question to arise in this context is: are the background requirements of the market model inconsistent with the motivational assumptions within the market model? In other words, are supporters of the market in the position of having to take individuals as selfish maximisers within the market, but trusting moral agents in the

⁴ But there are counter-arguments to the effect that in actual market circumstances – rather than idealised market circumstances – market exchange may not be free in the relevant sense, so that markets may themselves be instruments of coercion. See Hobson (1933) and Gibbard (1985) .

social background to the market?

I would like to identify two possible strategies for resolving any apparent tension between the foreground assumption of self-interested rationality and the background assumption of moral agency. The first strategy is to argue that the background morality is, on further analysis, consistent with the foreground model of self-interest; while the second strategy is to argue that the foreground model of self-interest is inessential and that the market can be supported in a way which is directly consistent with the background model of morality. These two strategies differ dramatically in that the first attempts to analyse all institutions in terms of (enlightened) self-interest, while the second attempts to defend the market in directly moral terms by departing from the assumption of amoral self-interest. The first strategy can therefore be identified with the approach which seeks to find the invisible hand mechanisms at work in a wide range of social institutions grounded in moral agency.

The first strategy seeks to ground trust and other apparently moral aspects of background behaviour in self-interest. The basic idea here is that in repeated interactions it will often be rational to act as if you are following a moral code such as 'always keep your promises', because the long-term pay-off to promise-keeping is greater than the long-term pay-off to promise-breaking once you account for the impact of promise-breaking on the future (that is, your future promises will not be believed). In this way honesty, and other apparently moral behaviour patterns, is often the best policy, and conventions of honesty might be expected to arise and endure.

Such conventions are fundamentally self-enforcing, even in a society of rational and self-interested individuals. And it is at least possible that the stock of self-enforcing conventions and norms is sufficiently rich to support market institutions – that is, to provide the relatively rich set of background institutions, ranging from property rights, to conventions of trust and co-operation.⁵

The second argument takes the opposite tack of admitting moral character which goes well beyond rational self-interest and attempting to resolve the tension between the market and the social background in this way. But notice a problem here: if we move away from the assumption of self-interested rationality, we no longer have direct access to the fundamental welfare theorem in support of market

5 This line of argument is explored further in Hamlin (1986); for an example of a piece of analysis adopting this strategy in attempting to explain the emergence of specific market institutions, see Milgrom, North and Weingast (1990).

institutions. If individuals are motivated in some more moral manner – perhaps with some degree of altruism – it is relatively easy to construct cases in which voluntary trade between such apparently moral individuals leads to Pareto-inefficient outcomes. If rational egoists can be led as if by an invisible hand to serve the general interest, so more moral individuals can be tripped by an invisible foot in their attempts to serve the general interest.

Of course, this problem need not be fatal. It may be that in at least some cases a version of the fundamental welfare theorem can be proved for motivations which ascribe more complex moral characters to individuals. Or, even if a degree of efficiency is sacrificed, there are still the procedural and feasibility arguments available for the defence of market institutions.

The point here is not to favour one strategy over the other, but simply to identify them as distinct approaches and to recognise their implications. If the first strategy is adopted, the implied research agenda involves the study of the limits of rational self-interest and the connections between rationality and morality;⁶ while if the second strategy is adopted, the focus of attention must be on modelling the moral character of individuals and assessing the implications for the analysis of markets.

A second major question arising in the area of the moral basis of the market is the question of the possible endogeneity of preferences or, more generally, moral character. It might be argued that market institutions actually encourage the pursuit of self-interest, so that constant exposure to market pressures results in a form of moral desensitisation – we become slaves to the market, and the social fabric that supported the market is eaten away. The argument here is essentially a form of negative feedback – we start out with moral characters which support the background institutions of society which in turn support the market, but the use of the market progressively shifts our moral perspective in the direction of self-interest. In the short term this might be expected to lead to increased use of the market as an institution (and the decline of non-market institutions) as self-interest comes to dominate; but, taken to the limit, this shift towards self-interest might undermine the background conditions essential to the market, so that the market would fail in its own terms.

Extending this line of speculation might suggest that as the market fails, moral perspectives might shift back away from self-interest, alternative institutions might be expected to replace the market, and

6 See, for example, Sugden (1986), Gauthier (1986) and Hardin (1988).

the social fabric might reemerge, so that the cycle could begin again.⁷

The Moral Scope of the Market

The central question in the debate on the scope of the market is one of balance rather than of simple choice. Few – if any – would deny that the market is an appropriate institution for the conduct of some aspects of social life; few – if any – would argue that the market is the only institution required for successful or satisfactory social life. The question is one of the appropriate balance between market and non-market institutions and the appropriate allocation of aspects of social life as between the various institutions.

I do not intend to attempt to identify the appropriate scope of the market in practical terms – where in the range from standard commodities such as chocolate bars and television sets to items such as human organs and the survival of a species of animal, the line between the marketable and the non-marketable should be drawn. Rather I shall be content to sketch a line of argument that might lead in the right direction, and which illustrates some of the key ideas in this debate.

Start from the presumption that there are many different values which may be affirmed by a rational agent – happiness, friendship, autonomy, fairness and so on. The standard economist – and many others, including many philosophers – would argue that all of these values are commensurable and may be reduced to a single underlying scale of value. This is a contentious matter, but grant this commensurability for the moment.⁸

A basic question, then, concerns the relationships between these various values and their implications for social and institutional arrangements. One view – which might be thought of as the extreme limit of the standard economist's view – is that since all values are commensurable, we may label the underlying scale of value as 'utility' and proceed on this basis to defend the market as the institutional setting which will best promote the utility of all agents. This would seem to imply that everything should be marketable and that all relationships between agents should be contractual. Many might think this a form of economic brutality.

A second view – which might be thought of as being at the

7 A cycle of this general type – between private interests and public actions – is discussed by Hirschman (1982).

8 For discussion, see Griffin (1986), for a detailed claim of incommensurability see Anderson (1990, 1993).

opposite extreme rejects commensurability and insists that different values require different institutional settings for their promotion and realisation. Thus, in this view, the market should be limited to those areas concerned with the promotion or realisation of certain values – particularly the self-interested values associated with simple preference satisfaction – and other institutional arrangements utilised in pursuit of other values. Perhaps political institutions, or the institutions of family or community, might be appropriate where the market is seen as inappropriate. Furthermore, since this view rejects commensurability, there can be no argument of the form that one value is more important than another; each value – and the entailed institutional arrangement – can only be promoted in its own terms.

While this argument may be extreme, it does contain a basic and powerful insight – that institutional arrangements are not neutral with respect to values. But this insight might be accommodated within a more moderate argument which retains the commitment to commensurability.

Suppose that all values are indeed commensurable – so that we may speak of balancing one value against another and reaching all-things-considered judgments. But suppose also that there are links between values and institutional arrangements. Some values – we might term them efficiency for convenience – might be particularly associated with the institution of the market; other values might be particularly associated with other institutions. The value of fairness might be particularly associated with institutions such as lotteries which treat all claims equally. If all this is true, then selecting between institutional arrangements might be conceived as a matter of choosing the value-maximising institution, while recognising the structural link between certain values and certain institutions.

Thus, if fairness is particularly important to us in some specific context (as it might be in the allocation of organs for transplant), we might choose a lottery-type institution, but choose it on the grounds that it maximises all-things-considered value. This may seem odd. John Broome (1995) has been at pains to contrast the claim of fairness with the claim of doing the most good,⁹ and yet I am suggesting that we might choose the lottery mechanism precisely on the grounds that it does the most good. But this difficulty is removed once it is recognised that fairness itself contributes to the good, so that acting fairly in this context substitutes one sort of good (fairness) for another (choosing

9 Broome also, correctly, distinguishes between doing the most good and acting efficiently in the manner of a perfect market, but this distinction is not crucial here.

the patient so as to maximise the direct benefit to the treated patient); and it is at least reasonable to suggest that it should be done only if, all things considered, good is increased. Surely, we would not wish to implement a fair allocation mechanism *whatever* the cost.

The key to this type of argument is the commensurability of values and the construction of all-things-considered rankings of alternatives. In switching from one institutional regime to another, each type of value may react differently – in our example the expected direct benefits of treatment will decrease and the fairness will increase as we shift to a lottery system – but so long as values are commensurable we can always ask the further question of which regime best promotes value overall. Only when values are held to be strongly incommensurable is this question unanswerable in principle.

This line of argument suggests that it might be possible to delimit the scope of the market, and of any other institution, by reference to all-things-considered judgments about alternative institutional regimes, where those judgments are sensitive to the links between values and institutions. It might be worth stressing that this argument attempts to combine a form of value-pluralism with an underlying commensurability of values. This is achieved by rejecting the idea that all values are simply reducible to some simple substantive value – for example, pleasure – while accepting that the many distinct values can be compared by use of a common scale of value. Of course, if commensurability is rejected, so that values are not only distinct but also incomparable, this line of argument fails.

The Moral Evaluation of Markets

As we have just seen, addressing questions about the moral scope of an institution will require positions to be taken on some of the fundamental questions which arise in attempting to evaluate that institution. Are institutions to be judged by their expected consequences, or by the degree to which they respect rights or other constraints? If by their consequences, which consequences and how should they be valued? If by the respect for deontic constraints, which constraints apply and with what force? These are among the grand themes of ethical debate.

In the last section I sketched an overview of the debate on the appropriate scope of the market as an institution, in this section it is appropriate to sketch a similar overview of the debate on morally motivated intervention in market mechanisms and their outcomes. I

say 'morally motivated' interventions to distinguish two cases. In the first case the practical market is identified as departing from the standard textbook market in some particular regard, and an intervention is proposed to improve the market in its own terms. Thus, for example, we might regard anti-monopoly policy as an example of intervention designed to improve the market. In the second case, the intervention is seen not so much as improving the market in its own terms, but as overriding some aspect of the market. A clear example here is the use of taxes and benefits to override the distribution of income that would arise in the market.

This distinction is important because it separates those interventions which we might think of as being contingent on some particular imperfection in the market as it exists in some place and time, from those interventions which are more principled in the sense that they are motivated by a moral criticism of the market even in its perfect form. It is here that we may return to the three classic ingredients of normative arguments in support of the market – the efficiency ingredient, the procedural ingredient and the feasibility ingredient – and add to this list the classic ingredients of normative arguments in support of intervention in markets.

The first and most important item on this list builds on the distinction between efficiency and good. Pareto-efficiency and the good are strongly related only under very particular theories of the good. Thus, for example, if good consists entirely in the satisfaction of actual personal preferences, and if good is interpersonally incomparable, there will be a strong connection between an efficient outcome and a good outcome. But this theory of the good is clearly open to many criticisms.¹⁰ Perhaps the most common line of criticism is that simple preference satisfaction theories of the good, and the notion of efficiency, take no real account of ideas of the satisfaction of needs, rights or considerations of fairness and equity.

I have already suggested that at least some progress may be made in incorporating these and similar ideas into a pluralist but nevertheless commensurable account of value. I will say no more on this here, save to point to this area as a major area of debate in the discussion of the morality of the market.

The second item on the list relates to the procedural ingredient of arguments in support of markets – and is essentially the claim that while the idealised market may promote the procedural values of

¹⁰ Some lines of criticism are explored and further references provided in Hamlin (1993).

autonomy and liberty, it may simultaneously deny other procedural values. Clearly if we think of all values whether procedural or outcome-based – in terms of commensurable values, this point is merged into the first point concerning the nature of good relative to the nature of efficiency. But if these procedural values are intended to have deontic force – as is often the case with claims of rights to liberty, for example – then the point stands separately.

Effectively the point hinges on the appropriate identification of deontic principles – just as the pro-market argument might be associated with affirming commitments to negative liberty and personal autonomy, so the interventionist argument might be associated with affirming commitments to positive liberties, and social solidarity.

The structure of these debates on the free market versus intervention should be clear – whether they are conducted in the language of consequentialist ethics and appeals to the good, or deontic ethics and appeals to the right.¹¹ This brings me to my final point – the requirement of feasibility. Much of the debate on the morality of markets, market intervention and the alternatives to the market, focuses on the central question of the desirability of alternative structures, while pushing the question of feasibility into the background.¹² But this can often lead to unsatisfactory results. It is all too clear that real-world markets are, at best, very imperfect institutions. The failings of markets are all around us. In some cases, there is even relatively widespread agreement on the general structure of desired interventions – basic income support programmes, a degree of social insurance and so on. But the real debates start with the details.

One particular point that should be stressed is that if markets are to be subject to intervention, the institutions responsible for that intervention – typically the institutions of government – should be subject to the same degree of moral scrutiny as the market. There can be no simple assumption that the regulatory institutions are themselves perfect instruments for the advancement of good. A proper discussion of the appropriate institutional framework for society must place all institutional structures under the analytic lens. The public choice approach to the economics of political institutions and constitutions within the framework normally devoted to the study of the market, provides one basis for making reasonable comparisons across alterna-

11 See Miller (1989a, 1989b) and Plant (1989, 1992) for arguments combining a number of these styles of argument.

12 For further discussion of the distinction between desirability and feasibility approaches see Hamlin and Pettit (1989).

tive institutional structures.¹³

Economists have often been guilty of analysing markets and market intervention within very crude ethical frameworks, while philosophers have been guilty of failing to engage with the detailed structural and feasibility questions when diagnosing moral problems with the market. The renewed interest among economists and philosophers (and others) in meaningful and productive dialogue between disciplines which has been apparent in recent years holds the promise of real progress on the outstanding questions which still surround the morality of the market.

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Chapter Two

Economic Morality
as a
Competitive Asset

HERBERT GIERSCH



Economic Morality as a Competitive Asset

Herbert Giersch

Competition among Locations

There has been a mighty increase in locational competition at the international level during recent decades. This happened when many countries opened their markets and lifted border controls on capital flows. Investment capital is today highly mobile amongst nations. Nations are competing for the favours of investors who create jobs. There is more and more political discussion about whether a country or a region has lost its competitiveness, or has gained on that score. One is reminded of international competition in sport; only that the prizes are not medals, but jobs.

In locational competition it is those who own the mobile resources who put a value on the immobile assets. Ultimate locational decisions are made by people looking for high returns on capital assets or wanting to find the best place to live and work. The owners of mobile resources are faced with the competition amongst localities, land owners and people unwilling or unable to move around. As a consequence, the owners of land and the immobile workers will benefit from a region having a reputation for attractiveness.

The choice of location involves numerous considerations. In the final analysis, firms search for a location where the enterprise, and those who will have leadership positions in it, can expect the highest returns. But the expectation of maximum profit is only a part of the answer in the search for the best location. Apart from cost advantages and market access, non-material costs and benefits count in the choice of location. These are probably playing a growing role in the competition amongst locations for businesses and jobs. We shall call these factors the 'soft location factors' to distinguish them from the 'hard factors' that are covered by the economic calculus of business costs and revenues.

When thinking of soft location factors one has nowadays to consider the natural environment. People do not want to stay or go

where they dislike the environment, unless they receive additional pay to make up for environmental shortcomings. As people compare locations, they include the environment indirectly in their economic calculus. The natural environment matters to economic decisions whenever mobile people, who have the last say in the decision process, give it an important role.

The location factor, 'culture', plays a similar role. A good offering of theatre, plays and concerts creates the image of a cultured city, as do educational institutions of good repute. City councils are therefore well advised to help support school education, artists, and universities, and to maintain museums and public memorials. There is a return in terms of attractiveness – though of course a limited one. Thus, locational competition promotes not only the economy, but also culture and the arts. Would we have the chance to admire Europe's medieval cathedrals, had there not been many centuries of intense locational competition within the church? What was at stake here was of course not profit, but reputation.

International competition occurs not only between government administrations, but also between national labour markets. Competitiveness requires not just workers with skills and flexible labour markets, but also a good work culture: a strong work ethic, a willingness to perform, reliable work practices, cooperative union behaviour, and positive attitudes towards technical progress. These competitive attributes of course change over time. Once it used to be said, for example, that Germans were working too much, were too dedicated and perfectionist, and that they saved too much. Nowadays, critical voices abroad have less reason to be envious; they have come to a different verdict on the work culture of the location Germany.

Moral judgments about economically relevant facts have economic consequences and should therefore count among a society's assets and liabilities in a broad sense. They form part of the reputation that is integral to the name of a location, just as it is to a person, firm or organisation. Concepts like prestige, goodwill, and renown belong to the same category. One might also speak of 'intangible capital'. Like physical capital, it is subject to valuation. Somewhere I picked up the phrase 'image market'. It seems an apt term, carrying the right connotations but vague enough to encompass all those evaluation processes with moral content.

But image markets differ from product markets, in that there is no one who demands an image as such, who offers a payment and therefore puts in a stake of his own. This increases the volatility of

image markets and facilitates glorification, as well as vilification. Those whose image is at stake face verdicts that may affect their very existence to a much larger extent than is the case in other markets in which goods are traded. Moreover, product markets give rise to cooperative partnerships and commercial relations that are of durable value to suppliers and buyers, especially when they make use of the division of labour and economise on information and transaction costs. Finally, product markets are positive-sum markets where both sides of the exchange can realise their aim of gaining utility and wealth, in contrast to zero-sum markets, such as the image market, where the 'suppliers' compete amongst themselves, often producing mutual-admiration cliques and, at the same time, tendencies to denigrate outsiders.

Locational competition extends both to the positive-sum competition for wealth-creating mobile resources and to the zero-sum competition for reputation and the kind of prestige that flatters the patriotism and pride of the resident citizens. Consequently, we have to recognise the positive-sum morality (or mentality) of the traders and investors who are after wealth, and the zero-sum morality (or mentality) that revolves around pride and honour. For example, Germans before the First World War used to deprecate the English in the international competition of nations for harbouring a trader mentality. The Germans saw themselves as superior in that they strove for recognition in the world, not just mere lucre. Much has of course changed, in Germany as elsewhere. Yet, much of what is now going on in Europe and elsewhere in the world cannot be fully understood if one disregards the competition for prestige. Just think of the international rivalry for world exhibitions and the Olympic Games.

It is likely that locational competition, once it was allowed to develop at the end of the Middle Ages in Europe, became the midwife of what we are today calling the market economy, the world economy, capitalism, Western civilisation, and the open society. We should note the following remarks which Max Weber made in his *General Economic History* that was published posthumously in 1923, and translated into English in 1927. He points out that the cities of medieval Western Europe enjoyed many freedoms which Russian cities did not, and that the West European cities lost these freedoms subsequently, just as the cities of Antiquity had few freedoms under Roman rule. Weber goes on:

... in contrast with antiquity, they [the West European cities of the Renaissance] came under the power of competing

national states in a condition of perpetual struggle for power in peace and war ... This competitive struggle created the largest opportunities for modern Western capitalism. The separate states had to compete for mobile capital, which dictated to them the conditions under which it would assist them to power. Out of this alliance of the state with capital, dictated by necessity, arose the national citizen, the bourgeoisie in the modern sense of the word (Weber 1927/1981: 337).¹

The rise of Western civilisation has without doubt been facilitated by a certain type of morality: the civic morality of the bourgeoisie, the civil society of free citizens. This morality constitutes, nowadays and in the future, a positive competitive asset in locational competition. It consists of the ethics of property which respects the property rights of others; the ethics of contracts which facilitate the exchange of goods and services, the division of labour, and the advancing of credit; the ethics of individuality which demands freedom from coercion and makes self-responsibility a duty; and a sense of community spirit which brings self-interest into harmony with the shared values and public demands of the location, thus contributing to the peaceful coexistence of individuals.

Tribal Morality and Macro Society

Let me clarify civic morality by contrasting it with two other moralities: first, a tribal morality of the small group based on instinct, and second, a collectivist morality that aims to transfer the norms of the small group, the morality of the tribe, to modern mass society.

A plausible hypothesis says that tribal morality has genetic roots. For tens of thousands of years and hundreds of generations, humankind survived in small gangs or hordes, in kinship groups and tribes – seen from today's angle in dire material penury and often at the fringe

¹ Following in Max Weber's footsteps, historians of the long term, such as Jones (1981/87) and Rosenberg and Birdzell (1986) have shown that the miracle of Western civilisation is owed to the locational competition amongst the small European states, and why this came about. Also see Weede (1990; 1995). The hypotheses of Findlay (1992) are also worth noting. He shows that small communities such as Venice, Genova, Portugal and Holland earned their revenues from long-distance trade, not from taxing the land. He also showed that inter-state rivalry in commerce promoted the journeys of discovery and, through defence technology, the industrial revolution. Inward-looking states that covered large areas had no choice but to imitate the smaller, more open maritime nations.

of mere survival. Those who gathered or obtained much less food than the average could not survive.

Small-group morality is instinctual, community-oriented, communistic. The individual is understood above all as a member of a closed whole that guarantees better chances of survival than an equally sized group of individuals who each separately pursue their own aims. The communal morality of the small tribal group has been cultivated quite naturally within the family. There, it is supported mainly by the genetic altruism of parental love and in the reciprocal altruism of the marital relationship.² Beyond this, small-group morality comes to bear within neighbourhood communities, amongst friends, in cooperatives and clubs.

In Germany much of the instinctual morality of the tribe was taken up and abused by National Socialism in an esoteric-romantic variant to exploit the readiness of people to submit. 'You are nothing, your people is all', 'The banner is worth more than death' – these were typical slogans by which the propaganda of the 'Thousand Year Reich' tried to transfer tribal morality to macro society. Socialism was presented in the guise of a domineering nationalism. This appealed, above all, to the natural instincts of the young. A similar effect was obtained later in the USA when John F. Kennedy said: 'Don't ask what your country can do for you. Ask what you can do for your country!'. The 'country' thus became the symbol for 'us', some sort of community, but in this case fortunately without the taint of nationalist superiority and envy. Later, politicians did not hesitate to appeal to the 'moral equivalent of war' to solve a political task. The glorification of war and a leadership cult could of course also be observed in the Soviet system, in Cuba, China and North Korea. We shall later return to the question of totalitarian coercion.

In the socialist reality of recent decades – as before under Stalinism – we again discover the collectivist attempt to transfer the tribal morality to macro society. But, just as the communistic experiments of religious zealots in earlier ages were condemned to failure, so were and are the great social experiments of the recent past and the present bound to fail. This is so because ultimately any subordination of self-

² The family offers tribal morality a firm place even in the free, open society. The moral principles of the macro society come to bear in competition between families, including loose partnerships. In this way, the social ethics of the family is being controlled today by the ethics of the open society. Young people and married couples who feel overly constrained by the ethics of the family will emancipate themselves. The latent threat of leaving the family makes it more open, but leads to a decay of traditional values or, to use a neutral term, to a transformation of social values.

interest under the interest of the large collective requires coercion. One simply cannot rely on voluntary subordination. Lenin was quite frank when he said: 'Control is better'. This is the control by secret agents and informers, by police and bureaucrats. Mental coercion is then unavoidable. Instead of utilising the knowledge which is decentralised in millions of human minds and which grows by invention, if the need arises, or by mere curiosity, socialism has to rely on the all-knowing central committee. The 'pretence of knowledge', as Hayek (1988) correctly foresaw, was the real cause for the failure of the socialist experiment this century. There is an increasing demand for additional knowledge in the global competition of economic systems and locations. To ignore this is fatal.

Knowledge is especially important nowadays. We therefore have to assign a high moral rank to the institutions which create, multiply and help apply knowledge or help to economise on required knowledge. The institutions that we have to think of in this context are the liberty of the individual who wants to discover and invent; the principles of science which apply standards and rules to separate worthwhile from irrelevant ideas; and the competition in the market for ideas which spontaneously generates a global, flexible division of labour amongst human minds.

The division of labour which really creates knowledge has to be horizontal, not hierarchic, so that individuals can exhaust their creative potential. Inventive productivity is enhanced by voluntary cooperation in a team, often held together by the competition with other teams. As soon as cooperation is imposed from above, activities are centrally coordinated and bureaucratically administered, and one gets waste and obstruction. Above all, the information flow from the bottom to the top dries up. This applies to hierarchical structures, whether they be in government, business or any other type of organisation.

One therefore has to wonder why the reduction of communications costs, which we now observe, is not always thought to favour the horizontal division of labour but has sometimes been invoked to justify business concentration. Whether people who construct big business concerns will actually uncover the synergies that they are searching for remains to be seen; one has to have great doubts.

Even greater reservations seem justified against the tendency towards a centralist integration in politics. This can for example be observed with the 'deepening' of the European Union. Just at the time when the megastructure in eastern Europe collapsed, West Europeans busy themselves with fashioning a super-state. Fortunately, one special

exemption has been obtained – by the British Eurosceptics on social policy. This will allow us to gain experimental insights into the welfare and labour market policies of the European Community. After all, the discovery procedure of competition works when at least one participant is allowed the freedom to do something different from the others – while the others are left to pursue their follies.

If we return to the narrower confines of economic life, we can perceive competition as a moral institution of a special kind: It translates the self-interest of one side of the market, however one may evaluate this on moral grounds, into a performance that helps the other side of the market. The customer is king when suppliers compete. And when the demand side competes, suppliers are able to protect their independence and their freedom to decide. Without the active pursuit of profit, there would only be night-cap competition, and, without the discipline of competition, the greed of suppliers would lead to the exploitation of consumers by powerful monopolists. Thus, we, the consumers, owe our good provisions, as Adam Smith said, not to the charity of the baker or butcher, but to their self-interest. Competition converts second-best motives of second-best human beings into decent performance. The same holds true of governments. They only become the servants of citizens when they compete with other governments for mobile resources. This points to the moral quality of locational competition.

Conversely, substantive perils exist when business concentrates and government centralises. People are deprived of alternatives and restricted in their freedom of choice; and as time goes on the mentality and morality of the subservient subject are dictated and cultivated. Bootlickers then make headway; civil courage becomes a scarce moral asset. Those at the top of large business concerns then get less and less information about what their customers want. Those at the top of centralised administrations have no clue what citizens are really concerned about. And peevish uninterest in politics becomes a dumb form of protest.

From the viewpoint of tribal morality, competitive behaviour appears damnable and depraved. Critics miss warm-hearted comradeship and human sharing. Instead of a comfortable order under a distributing authority, they perceive a fight of all against all. 'Elbow society' is their term to revile competition, or they speak of the 'law of the jungle'. Those in the competitive game who render services to others are depicted merely as high-income earners who deserve no better than to be handed over to the Tax State for fleecing! Populists

demand that governments should produce social justice, not simply establish the rule of law. Equality before the law and court rulings without regard to the person are not considered to be fair enough. Instead, government is urged to bring about the equality of outcomes by cutting back top incomes and guaranteeing everyone a sufficiently high minimal income: To everyone according to their need.

Real-life experience, however, has shown (for example in Sweden) that a government's capacity is overtaxed by the promises of the welfare state. Assistance, which is not conditioned on self-help and own effort, is also becoming morally dubious. It generates dependence on assistance and it gives rise to moral hazard and a claims mentality. People simply adjust to the conditions they are confronted with, just as they react in the market when they buy more of a product once a greater supply has brought down its price.

By contrast, moral behaviour is fostered in well-functioning small groups, including the family, which monitors adherence to norms and taboos which have proven their worth as rules of conduct. Such groups combine – so to speak – material assistance with an encouraging pat on the shoulder. They cultivate habits of gratitude among recipients of assistance, and provide other opportunities to earn gratitude or recognition.

The macro society with its welfare state, on the other hand, has to impose strict controls so that its redistribution system is not exploited. Once solidarity is turned into a legal claim, there is need for coercion. Therefore, the price of more equality of outcomes in the modern mass society is the impairment not only of the family as a self-reliant support organisation, but also of individual liberty. The extreme case was elicited by German poet Friedrich Hölderlin when he wrote: 'What has always made the state a hell on earth has been precisely that man has tried to make it his heaven' (quoted after Hayek, 1944/1972:24).

Those who have lived under a totalitarian regime need no further explanation or evidence to accept the conclusion that the morality of the small group cannot be extended to apply to the anonymous mass society for a long time without continuous indoctrination and severe restrictions on individual liberty. Some countries like Cuba and North Korea are still in such a deplorable situation. Others are on the way to a more open society. The driving force is the decline of communication costs, which gives rise to a growing competition among systems, locations, ideas and knowledge. This competition will limit the importance of tribal ethics to the small group where it has its comparative advantage.

Civic Morality

Civic ethics, by contrast, is an ethics of individual responsibility; it is the morality of the open society. It promises liberty, and in exchange it demands that individuals are prepared to bear responsibility for their own actions. It implies and recommends that individuals are educated in self-discipline. Responsibility for one's own affairs becomes a duty.³ Those who do not act responsibly fall quickly outside the morals of the open society. Liberty is, in the first instance, the freedom to gain knowledge from experience, to learn from mistakes and to avoid mistakes by participating in an exchange of experiences.

The civic mentality endorses a progressive ethics which is not constructed according to a design but is the outcome of an evolutionary process. In a progressive order, new questions and challenges are coming up continually. One or the other participant in the debate may feel it within him- or herself to design and suggest new ethical answers. This gives innovative impetuses to moral discourse in ways similar to the stimulation of market competition by new products or – in the market of ideas – by new thoughts and concepts. To use a metaphor: one might say that moral discourse meanders through unknown terrain, like a river through the moral landscape. Many a solution which this discourse turns up will fail to prove its value. It will be jettisoned and forgotten. But much will become part of the moral tradition that is worth conserving because it has proven its usefulness.⁴

The moral evolution of an open society does not proceed according to the principles of Darwinian theory. Our instincts may be inherited and that may make us susceptible to the temptations of collectivism, especially at a young age. But we owe the behavioural rules of Western civilisation – as Hayek showed – to the passing on of

³ If you want no more than a minimum of coercion from above, you have to exercise and demand self-discipline as a *quid pro quo* for liberty. Self-discipline thus becomes a pedagogical task and part of the education for liberty. Free people must reign themselves in to stay within the rules of civic ethics, so that government does not have to act as a guardian and may instead concentrate on matters that can only be solved by collective action, such as the protection of life and property. The limits of liberty – for example in the area of the trade in human organs, dangerous weapons and environmentally damaging goods – are contentious and will probably remain so for a long time yet on the agenda for moral discourse. There are probably no alternatives to exploring the limits of liberty by conducting limited and controlled experiments.

⁴ Those who believe, like myself, that civic morality flows from cultural selection processes will have to entrust the further evolution of morality to experiments and experiences, trial and error, venturing and correcting. Thus, one might for example

acquired knowledge along the lines of Lamarck's evolutionary theory. Over time, civilisations that are more efficient tend to expand. They gain more adherents, because they fit prevailing conditions better. Other civilisations recede because people turn away as they cannot expect sufficient life opportunities from them. Just think of the collapse of 'real socialism' or of the economic decline of Africa in the maelstrom of ethnic conflict.

The ethics of Western civilisation emerged as an economic morality that was assisted by the locational competition of cities and states (as the quote from Max Weber indicated), though its roots reach back further. It is a morality of efficiency, tailored to the anonymous division of labour over great distances. This division of labour is based on exchange, specifically purchases and sales. It is predicated upon individual property rights. In this context, communal property does not count as it cannot be efficiently traded. What I do not own exclusively, I cannot offer someone else for exclusive use. And what I cannot use exclusively, does not have full value for others – or for me. Moreover, what belongs to many will only rarely be conserved and cultivated, at least not spontaneously.

The inviolability of property is a fundamental legal principle which is morally supported by the commandment: 'Thou shalt not steal'. Violence against property, as the 1968 generation advocated, has similarly damaging consequences as violence against persons. Both narrow the scope for the division of labour and for trade. Both forms of violence raise the costs of security, irrespective of whether these costs come about in the form of taxes or insurance premiums. Locations with high criminality against property tend to lose their attractiveness for investment and job creation. The bill is paid by the land owners, immobile labour, and governments which face a shrinking revenue base.

4 (cont.) ask whether thefts by drug addicts would decline if soft drugs were as freely available as is the case with nicotine and alcohol. How long would it take till drug taking falls, as cigarette consumption now does? Are prohibitions more effective than bitter experience, belated insights and good examples? Are the experiences with prohibition in America in the twenties encouraging or rather discouraging? Might drug-driven criminality be reduced without major drawbacks by treating addicts as sick people in need of permanent medication? Such questions cannot be answered solely from behind a desk, for they depend on human behaviour under differing circumstances. This is why the competition of alternative locations, which we can visualise as a process of experimentation to discover, is so fundamental and promising for the evolution of our civilisation. In contrast to centralism, decentralisation is a system capable of teaching us solutions, including to moral problems. The competitive process itself is a learning process.

Similarly important for the division of labour and trade is adherence to the principles of trust and credibility; they too are cost-saving. But trust and faithfulness do not mean in this context blind faith of the sort required to save on the costs of control in vertical hierarchies; rather they refer to that sort of dependability in interpreting and fulfilling voluntary contracts which encourages future reliance and trust and which allows material gains from further specialisation. This principle gives rise to the secondary virtues which are the virtues of the honest trader and artisan: precision, punctuality, warranty, compensation for damage, high reliability in paying one's bills. People reap personal gain in cultivating these virtues because honouring these maxims creates recognition in the image market, and hence creditworthiness so that they do not have to mortgage assets or pay a high risk premium. A man's honesty becomes his good reputation only with the passage of time, after the market has tested whether he is creditworthy.

We can contrast the good standing of the honourable merchant with the distrust that bourgeois society reserves for ambulant salesmen, those migrant birds hunting after the fast buck. One can get a good feeling for the locational advantage of a community with a high civic morality if one thinks of current conditions in the former communist countries of eastern Europe. Their shortfall of traditional economic ethics is now an obstacle to the development process; things will probably improve only gradually with generational change and intensive learning processes in economic ethics (Voigt 1993).

Where one can have trust in the safety of life and property and the ready fulfilment of contractual obligations, one can expect gains from the division of labour. Insurance premiums are low; police protection need not be elaborate, and the courts have little business. In such a society, there are not only low security and transaction costs, but also low information costs: people do not lie. Whereas it is necessary to dissimulate the truth behind courtesies and formalities in hierarchical systems, abuse, lies and fibs soon have negative feedback and incur penalties in the open, transparent society. The truth comes out sooner than one may expect. Part of the ethics of the open society is also a certain tolerance for errors. One is simply told more if one does not immediately show misgivings; people then have less reason to come to the fearful conclusion that 'silence is golden'.

The civic virtues describe to a large extent the ethics of the market place. They inspire a type of behaviour which is worth cultivating because high costs arise if people are unreliable – in short, dishonest and without honour. Let us underline that the honour of the merchant

differs fundamentally from the honour of the vassal who subjects himself to blind obedience. Since markets are based on legal property rights, the honour of the merchant demands respect for the law and preparedness to compensate for damages and torts. Civil law only steps in where civic virtues and good manners do not suffice.

As noted above, creditworthiness cannot be built up quickly. For good reasons, people do not trust those whom they do not yet know. Long-time residents often suspect strangers or mobile entrepreneurs to be speculators, after the fast buck and with no lasting commitment to productive effort. However, this suspicion is based at least partly on a misunderstanding. For to speculate means to think about the future and to derive valuations for the present from future scenarios. Of necessity there is a risk in each future-oriented engagement. However, in reality, everyone who owns property incurs a risk for the future, even if he or she only holds on to the assets or fails to sell them out of inertia. Those who say that they do not speculate either refuse to take future eventualities into account, or believe simple-mindedly that everything will always remain as it is. This may have held true in the peasant culture of yesteryear, also for the rigidified craft economy of the guilds and corporations of Middle Age Europe. But nowadays we are faced with a continuing change of structures and conditions that is driven by world market forces. Those who are not on the alert and fail to adjust by anticipating change run the risk of being left behind, to be run over and to become dependent on the help of others. After all, one cannot only make mistakes by doing something, but also by failing to act.

Another critique of speculation is aimed not so much at the seemingly effortless acquisition of wealth as at the fact that money is involved. Money, though not considered as dirty per se, marks the borderline between the tribal morality and the civic ethics of the open society. Those who have paid their debts are free to leave. They are, so to say, free of the duties of allegiance that bind them to the family. Those who have acquitted themselves are free to quit. They are seen a little bit as deserters, outsiders, anonymous nobodies. Thus it is the money payment that symbolises the loss of the tie to the small tribal group. Those who offer something for money may wish to be seen as strangers and can be treated as outsiders. They are on the way to the open society, free of tribal ties. And that may cast a dubious light on them. In this context, we must appreciate that openness and the anonymity of the market are placing constraints and disciplines on tribal morality. But these constraints are, of course, discomfoting and

therefore not liked without reservation.

Speculation also means that one does not pursue a cause, or does not own an object, for its own intrinsic value, but that one invests because it is valued highly by others and therefore has an exchange value. The speculator consciously acts according to market forces, even when he exploits the whims of the market. Seen from the viewpoint of those imbued with tribal ethics, the speculator thus acts without respect for tradition and hence without honour.

Being oriented towards the future and discounting the past may be equally offensive. It used to be said in my youth that 'traders don't give you anything for by-gones', or as the English say 'let by-gones be by-gones'. The cost that matters is not past effort which was duly recorded in the account books when it was expended. Rather, the cost is the future benefit forgone that we would have obtained otherwise. Curiosity about the future becomes a virtue for those who act in the market place and who act swiftly.

The market economy thrives on information. Sheer muscle power does not matter all that much, but an alert mind does. People who hear the proverbial grass grow succeed. This points the way to how the capitalist ethic fits into the modern information society and never-ending structural change: we are urged to hurry along with the times, to put curiosity before greed and to be on the alert. Such characteristics are not, as yet, widely seen as virtues. But more and more people know what characterises modern competition: time is money. It is amazing with what speed huge, complex transactions are made in share and foreign-exchange markets, if we compare this with cumbersome real-estate deals. Here one telephone call, there time-consuming contracting through solicitors and entry in a land registry! One can observe from the lifestyle of the yuppies that markets have a great influence over the mentality of the participants in these markets, whether one approves or not. When we are speaking of the lifestyle, we again have to think of locational factors. Wall Street is not Harvard, the London financial district is not Oxford. Of course, like and like associate with each other because similar customs, conventions and moral concepts save on communications and transaction costs. Many an idea will spread more easily among people with similar cultural backgrounds.

Human behaviour is made predictable by good manners. They dominate the middle ground of social intercourse between the tribal entity and the cosmopolitan, open society. Good manners matter in the spatial framework of local communities, regions and linguistic and cultural communities. Their content relates to what is 'proper', what

earns respect and approval, what conforms to the usual expectations. Good manners facilitate human interaction in ways similar to a shared language, but they also constitute a sign of identification – if we compare differences in space – and hence constitute a locational factor. What is considered good manners has been passed down in customs; they are cultivated like a piece of land. Emotionally, they are like a piece of the home turf. Yet, conventions and good manners make economic sense only if they are of more use to those involved than what they cost to uphold or the damage they do.

Amongst friends we promise each other mutual support – a kind of reciprocity on a multilateral basis, a fraternity of cooperative help to help ourselves. This serves as a kind of private insurance on the basis of loose reciprocity, which economises on insurance costs. But fraternity may also turn into a cartel which disadvantages third parties, a conspiracy to eliminate competition or at least to make it 'fairer', or even a compact to gain a monopoly. It is possible that shared norms of behaviour serve to economise on transaction costs, to avoid certain taxes or to turn cumbersome decisions into easy routines. Thus, we pay waiters a tip of a certain percentage because everyone does it; one goes to the polls although it is of no relevance to oneself; one becomes politically engaged (or opts out) because that is prescribed by shared conventions or because one has turned one's civic duties into something like part of the family tradition. There are many examples of people engaging in a good cause although this only serves the common good of those with whom they live. Much of this may appear irrational and hard to explain. Not a few will suspect that there is such a thing as a collective rationality which ensures that selfless action pays, that good manners are reciprocated and engagement for the common good earns a return. This sphere of manners and conventions, which lies between tribal morality and the ethics of the global society, is highly relevant to civilisation. We should not underrate its importance.

To be sure, economic man has to be self-interested to remain in the race, but he does not pursue the narrow-minded, but the wider self-interest, taking the non-economic effects of his actions, or inactions, into account and by looking at externalities which may boomerang back through the market. Thus, one's reputation counts in similar ways as one's tangible assets, as we saw. Most people who want to conclude their lives successfully in both respects – earning wealth and a good reputation – will tend to become sponsors of some good cause.

The difference between self-interest and good causes can be illuminated by the concept of 'non-tuism' which the English economist

P.H.Wicksteed put forward. Wicksteed wrote: 'What makes ... an economic transaction is that I am not considering your desires except as a means by which I may gratify those of someone else – not necessarily myself. The economic relation does not exclude from my mind everyone but me, it potentially includes everyone but you' (Wicksteed 1933:174). You may dispose of your private income or wealth as altruistically as you have to for your emotional peace – now or when you pass on your inheritance. However, in business there are no moral grounds for making altruistic concessions to contract partners. Only when business considerations come to bear fully will prices reflect relative scarcities without distortions, so that the prices can serve to overcome those scarcities. Coffee planters, for instance, are not helped by offering them artificially high prices out of friendship or compassion. Higher prices would only induce more suppliers to offer more output. How much excess production and waste is generated by such concessions can be seen by looking at Europe's common agricultural policy. This is why assistance should always be given directly and outside the market, so that market prices do not get polluted.

Non-tuism creates the resources to be altruistic. The great English economic theoretician Dennis Robertson once asked the question what it is that the economist economises by teaching and applying the economic principle (Robertson 1961). His response was: love, love in the form of charity. Charity is in such short supply and so valuable in private life that one should not waste it on economic relations where it only does damage. Indeed, the sharper the calculating pencil which we apply in business, the more will be left for what we can give to the family, the church, the Salvation Army, the Third World, more generally what satisfies altruism. There is much scope for expressions of philanthropy and community spirit, also in the form of voluntary transfers – which replace government transfers – to those for whom we feel sympathy.

The community spirit in a given location or region will become an increasingly important location factor. Locational competition will slim down the size of governments, including the welfare state with its system of redistribution. Many now seem to fear that this will lead to a dismantling of social security, doing damage to social cohesion. To be sure, social peace and harmony are assets in inter-locational competition. But the more intensely locations are competing for mobile capital, and for the jobs it creates, the less resonance there will be in society for outdated calls to class struggle. As within firms,

competitive pressures from without enforce cooperation within. And when people can hope for economic growth, they are less likely to be envious.

The Cosmopolitan Dimension

Civic morality has its protective walls. Visitors and immigrants have difficulties in joining the establishment, the circle of established insiders, the local clubs and associations whose doors are more widely open to the sons and daughters of old-established families. Admittedly, the city is naturally more open than the village, the metropolis is more liberal than the provincial town. Distrust of strangers need not always go as far as xenophobia, but there is a general expectation that immigrants will not so easily be accepted as part of the home crowd if they act differently, and especially if they are successful.

All social systems have an inherent tendency to rigidify, not to change with the times and to close themselves off. The old does not always readily give way to the new as internal structures resist the pressures, impacts and changes that come from outside. We call this protectionism, an artificial closure of systems of thinking and acting, of morality and mentality. Xenophobia is the worst, local patriotism a harmless, manifestation of this. Protectionism seems to be supported by genetically inherited instincts which suggests to us that the exclusivist tribal mentality is only natural. We feel a certain inner warmth when we are not dealing with anonymous market forces, but with human beings whom we know and who share our joys, fears and pains. There seems to be a difference between emotional values which we share with our friends and which are reliably stable, and cold prices which change with scarcity and inform us continuously of events in the anonymous outside world, mercilessly forcing us to adjust. One might say that economists are cynics who – according to Oscar Wilde – know the price of everything and the value of nothing.

The fundamental principle of cosmopolitan morality is non-discrimination: treat those who are more distant from you no worse than your friends and close neighbours, the coloured person with no less respect than the white man, those of a different creed no different from your coreligionists or those who share your philosophy. It focuses on the question of the price to be offered and demanded, not on the person's values, philosophies or religion. The principle of non-discrimination can be universalised along the lines of Kant's Categorical Imperative: It can serve as a global law.

The cosmopolitan morality spread in its philosophical guise from

Scotland and England to become the ethics of Western civilisation across Europe and North America. It is the individualist ethics of the bourgeoisie, of capitalism and the merchants. It stands in contrast to nationalism and socialism which derive from the ethics of the small tribe. Instead of acclaiming the state and national heroes, it serves trade and daily life, markets and money, in short: commercial affairs. This ethics is drawing more and more nations under its influence – in Central and Eastern Europe since the fall of the Wall, in the small Asian Tiger countries who follow in the wake of Japan's ascendancy; in China and in future possibly in India, and again and with partial success in Latin America. This morality now has gained global currency and will be imitated for the simple reason that it has been successful elsewhere. Its very success has great practical power to convince, more so than the critique of intellectuals or moral preachers, new sects and movements who decry the adoption of the cosmopolitan morality as a decay of the value system. It is true that capitalism 'created' the proletariat in its early history; but that happened when the paupers who otherwise would not have survived into adulthood were given the chance to survive by working for their daily bread in the factories. In our age, too, the market economy is laying bare quite a few cases of the misery of marginalised groups. In general, however, it enhances life opportunities because it allows a great diversity of talents to become productive in the global division of labour. As a consequence, a big world population can enjoy so much more affluence than would be possible if many small tribal communities existed in autarchic isolation alongside each other.

Scarcity prices and their changes are in a certain respect the specific expressions of a cosmopolitan morality. They tell you to adjust because the global division of labour demands it. The cosmopolitan morality that tells a community to obey market signals is a competitive asset in inter-locational rivalry. After all, some countries grant themselves exemptions from the cosmopolitan imperative, from the principle of free trade, non-discrimination and most-favoured nation treatment. In the long run, protectionist countries of course pay a price for their infringement of the free-trade rule; they pay with losses in economic welfare. This is why markets are being liberalised almost everywhere. It is thanks to the surge of cosmopolitan morality, of free trade and non-discrimination, that a greatly increased population has been fed in recent history and has at the same time become more wealthy.

The principle of non-discrimination comes automatically to bear when markets are free and open, when prices are equilibrium prices

and when market participants maximise utility and profits. If markets are continually cleared by price competition, there are no queues, there is no opportunity to ration things arbitrarily, to discriminate without cost. Conversely, an intervention like minimum wage legislation, which creates unemployment, gives employers the opportunity to give preference to certain employees without incurring a cost penalty. It is of course possible that people have some bias, for more or less valid reasons, and wish to follow it, but then let's make sure that they incur a cost penalty. Public opinion often prefers the imposition of a non-pecuniary penalty for discrimination: pointing the finger and castigation in public. Admittedly, markets with free prices may not be as just as we would like them to be, but they guarantee more anonymity and random selection, and hence more equality of opportunity.

Many of course dislike such a blind, anonymous mechanism. In particular, they reject it in the political market where votes are bought and sold and where some voters demand preferments, and politicians are inclined to supply them. Such political horse trading may not be completely avoidable. But when so many citizens suffer from disillusionment with political life as now seems to be the case in many countries, there is too much power in the hands of government and the politicians, relative to their morality and competency. If support for the political process in the West with its long civic tradition is so poor, how is it to work out in Eastern Europe where governments have collapsed under pressures to reform and the civic ethics is not coming to the fore? Instead, Mafia organisations with no respect for the rule of law fill the gap! Can we in such circumstances advise investors, who have to take on many risks anyway, to try their luck in environments where political ethics and power structures offer so much scope for discrimination and intervention? The resulting locational disadvantages are borne, as we saw, by the immobile workers in those countries. If things get bad, the most courageous may migrate to look for their economic fortunes in a better moral environment. Those left behind suffer the more.

In many of the developed industrial countries, industry, governments and local authorities are now facing the pressures of structural change which threatens jobs, even entire industry locations. Should governments then intervene to protect people from change? Seen from the standpoint of tribal ethics the answer seems an unreserved 'yes'. After all, those affected draw attention to their plight by demonstrations in front of TV camera teams that invariably just happen to have been notified. What politician would dare to reject the demands for help

from groups of people who are under fire, by pointing to the costs of assistance or protection which have to be borne by the majority of fellow citizens who remain anonymous? They would soon be typecast as cynics and as cold-hearted economic rationalists.

From the standpoint of the open society, the perspective is different. Here, structural risks present themselves as the mirror picture of growth opportunities. Many a structural weakness which befalls advanced countries can fortunately be predicted as a danger. One only has to analyse the structural dynamics of the new industrial countries. Thus, the crisis of the European steel industry could be predicted as long as two decades ago. Many enterprises indeed adjusted in an anticipatory manner, changed their product mix in response to the changed location conditions and modernised their production methods.

Other firms, who chose not to adjust, now lay siege to the subsidy state. Such management failures no doubt relate also to the readiness or otherwise of governments to yield to demands for assistance, which may, if necessary, be extorted by massive pressure. Those who promise help, provoke negligence, the need for help and moral hazard. If this attitude prevails, then the morality of the open society decays. The location loses its attractiveness for the very resources that can drive economic growth forward. It becomes less attractive for people who are sure that they will be among the high income earners and taxpayers, rather than among the needy subsidy-hunters. Protectionism thus inevitably turns into a negative location factor and into a competitive liability.

Who is paying the price for protective assistance which government is granting those who are known and beg for compassion? The answer is that the bill is footed by the many anonymous fellow citizens. They include the bulk of domestic consumers and taxpayers, the workers and firms who have to draw on overpriced inputs, and all those in the new industrial nations whose income and job opportunities are diminished if the rich countries resist structural adjustment. Seen in this light, the principle of free trade and non-discrimination, which stands in the way of protectionist industry policies, is a moral shield which protects the life opportunities of those we do not know. It deserves the rank of a universal principle to counter the influence of protectionist lobbies which are laying siege to governments. Those who advocate free trade are often derided as theoretical purists. But that criticism turns against the 'pragmatists' who raise it. Confused pragmatism grows of its own accord in the jungle of politicised

interventionism. 'Purist theory' therefore may at least serve to give pragmatists, who earn their keep from representing particular interests, a bad conscience and thus serve as a corrective for their myopic judgments and all-too-pragmatic inclinations.

Markets and Morality in the Open Society

Without at least an intuitive comprehension of the spontaneous order of the market, one cannot comprehend the ethics of the open society or explain it to others. Markets are certainly not perfect, but they are without doubt the greatest invention in human history. Markets were invented wherever individual property was safeguarded, and they spread where conditions were favourable, above all the ethical preconditions.

Economic ethics, which markets demand and generate, is apt to promote the self-responsibility and the spontaneous order of free citizens. This takes the weight off hierarchical structures like the state. It creates the scope for privatisation, deregulation and liberalisation. Bureaucrats and many a politician of course take a different position than the citizens who are now showing their disdain for politics. Mature, responsible citizens find themselves in a tussle with authorities that claim a right to regiment them. Where and to what extent economic morality will be able to replace governmental authority will ultimately be decided by the competition of locations. We should note in this context that the spread of global competition since the early 1980s, and even before, has been paralleled by a turn towards supply-side policies, that is policies which are aimed at liberating producers rather than controlling them.

Ludwig Erhard, when German Economics Minister, did not hesitate to preach economic ethics, rather than issuing decrees. He used to admonish the citizens to save and the business people to invest ahead of demand. He demanded discipline in wage demands from the unions and price discipline from industry. Thus, he hoped to suppress inflationary tendencies not by direct government controls, but by moral suasion. But that had probably little durable effect. Those at the receiving end of his admonitions gradually came to ridicule his moralising speeches and his posturing as 'the massage of our souls'. But they nonetheless felt that he took them seriously by his appeals and therefore counted him as one of the fathers of Germany's post-war success.

Social compacts and accords that remind those in power of their

overall responsibilities are desirable in open systems which compete with each other. One does not have to be concerned about social accords when the winds of global competition sweep in, because internal cooperation will develop anyway. Once the winds of competition are blowing in from the outside, the insiders band together, antagonism wanes, and all begin to cooperate out of sheer necessity. In such an atmosphere there is advantage not only in overcoming class conflicts between capital and labour, but also between incumbents and immigrants. When this happens within firms, competition promotes efficiency. When this happens among nations or locations, all residents gain new opportunities and prosperity.

One can also hope that the competition of locations will give rise to a competition of moral systems and that this moral competition will lead to quality improvements. When we speak of morality here, we do not think of something temporary or superficial as is implied when people speak of 'morale', that is motivation and sentiment. Rather we mean ethical rules which deserve to be turned into universal principles. But we must put up a warning sign: morality is directed against the degeneration of locational competition into protectionism. Universal ethical principles of competition should above all induce us to oppose the subsidy race and industrial and agricultural protectionism which is the consequence of short-sightedness. It overlooks the long-term damage done by the discrimination against those who are unknown and in favour of those who are known to, and closely connected with, policy makers.

The image of the cosmopolitan economic citizen lets one expect certain characteristics and modes of behaviour. One may describe the ideal type of the economic citizen (even as a poignant caricature) by about 100 adjectives and terms from the popular language. A list of these associative terms is attached (see p. 41), although it will have gaps.

There are still many words which remind us of the civic virtues and have positive connotations in popular culture. Linguists and literary critics may be able to tell us how the image of open-minded citizens has changed over time by analysing the language of the old and the young. That would offer us insights into future modes of thought and behaviour. A linguistic atlas that provides national regional and local information of this type might help us in rating locations for their assets of civic morality. This could supplement statistical information about murder and theft, fraud and corruption, accidents, strikes and many other such locational factors that define the social competitiveness of

regions and nations.

Finally, a few words to sum up: locations have attributes which make them more or less attractive to mobile resources. The behaviour of the residents – more precisely, their economic ethics – is amongst the more important competitive factors. Just as tribal morality fits in well with the warmth of family life, so the global competition of firms and locations demands a morality of efficiency which is based on honesty. What is honest is decided in the image market which is also influenced by moral discourse. What has proven its worth is preserved, new concepts are tried out, successes are imitated, failures are rejected. Moral competition results from what Hayek called a 'discovery procedure' and Schumpeter a 'process of creative destruction'.

The global competition of locations has finished off socialism as a constructivist attempt to force tribal morality onto modern macro society. The universal principle of non-discrimination which is valid at the individual and the cosmopolitan levels has stood the test. Between the two poles on the social scale, the individual and global society – in a zone of tension with increasing chill – there are the family, the club, the neighbourhood, the city, the nation, the European Union, modern civilisation. Smaller communities will need more openness. These create moral ties for the individual who may accept them with gain or reject them out of a thirst for independence. But genuine independence is only enjoyed by those who accept many advantageous ties voluntarily and do so voluntarily out of self-discipline. The German poet Goethe put this concisely when he wrote: 'He who toys with life, will always remain in strife. He who does not take command of himself will remain a serf'.

In locations, where such an attitude is conserved as a custom, there need be no great concern that economic morality will remain a competitive asset.

Attributes of Civic Morality

A responsible economic citizen is or should be

- civil and honest;
- cultivated and sophisticated;
- loyal, obeying the rules and the law;
- disciplined and considerate;
- moderate;
- ethical;
- respectable;
- open and open-hearted;
- diligent; orderly; industrious;
- straightforward;
- reliable, punctual, if not punctilious;
- rationally calculating and therefore predictable;
- circumspect, faithful and caring;
- non-opportunistic in complying with contractual obligations
- faithful to the customer and supplier;
- reliable in paying bills, solvent, ready to pay one's dues;
- creditworthy;
- enterprising, active, alert;
- courageous, strong-headed, ready to take up challenges;
- engaged, but not out of blind zeal;
- eager to compete, but without being spiteful;
- fair-minded;
- flexible, but not opportunistic;
- performance-oriented, but without gloating about his success;
- self-assured;
- self-interested but without narrow-minded greed;
- fraternal and compassionate out of an extended self-interest;
- individualistic, but considering long-term interests of the small group;
- patriotic out of a community spirit;
- cosmopolitan, non-discriminating, universally humane;
- incorruptible;
- innovative, open to the future, eager to learn and acquire knowledge, curious;
- tolerant, insightful, not arrogant;
- modest, economical, a person of independent means,

- self-responsible and self-reliant;
- helpful, unobtrusive;
- decent, tactful, candid;
- well-mannered;
- self-critical;
- generous;
- sober, balanced;
- factual, competent, unemotional;
- adaptable, imaginative;
- honourable, respected, of exemplary behaviour wise,
- sincere.

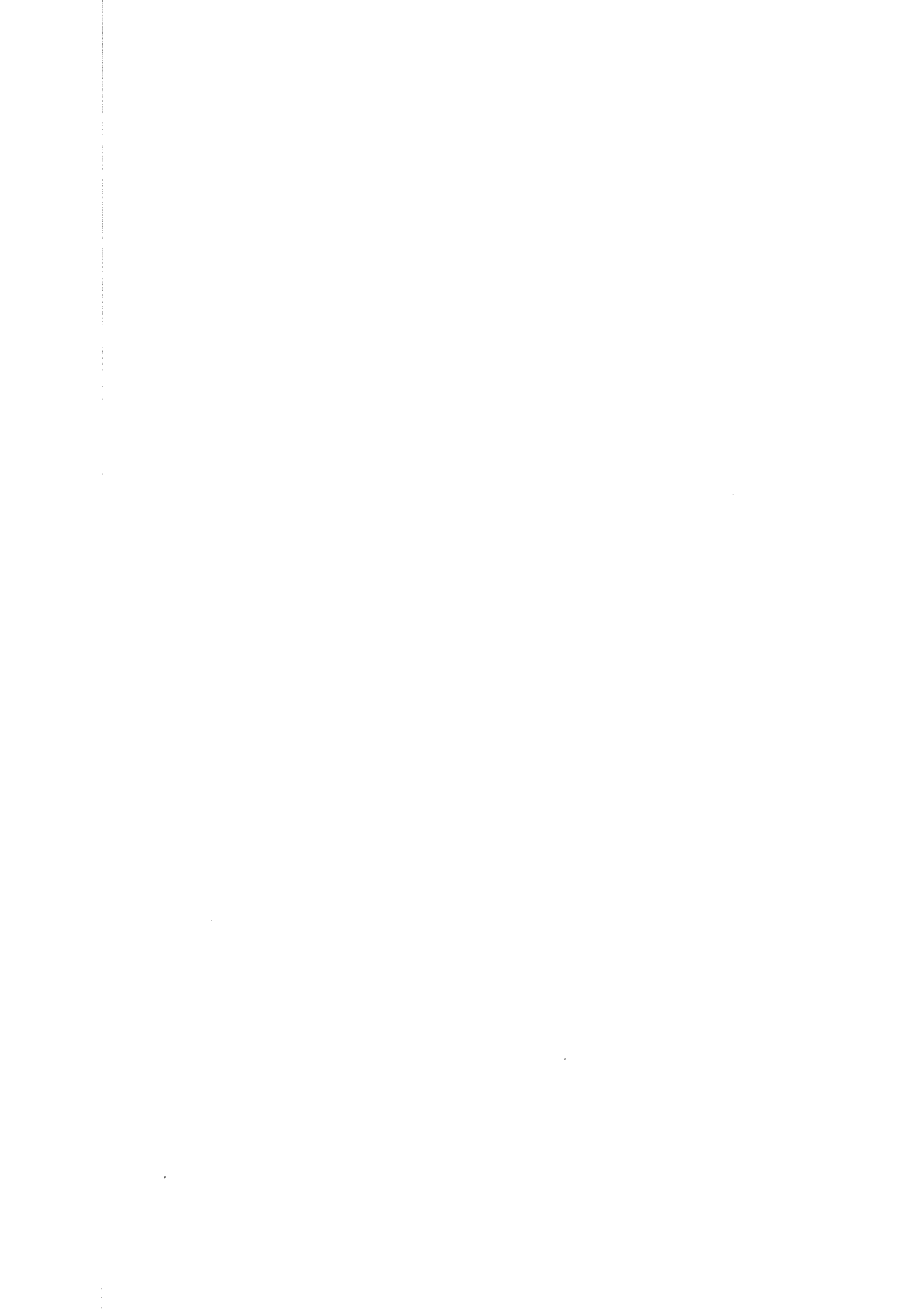
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Chapter Three

**The
Market
Mentality**

ANDREW NORTON



The Market Mentality

Andrew Norton

Every society is concerned with the state of the social ties that hold it together. There are perpetual debates about not just the strength of these ties, but also their form. Contemporary controversies focus on the appropriate balance between three broad categories of social ties: market, political and communal.

The differences between the three types of social tie can be seen by comparing the obligations they generate. In a market, obligations are assumed voluntarily and limited to an exchange. Implicit in market exchange is that obligations are approximately equal, as people will not agree to exchanges that make them worse off. In politics, obligations are imposed and potentially unlimited. In democratic polities, citizens can influence the obligations imposed on them, but ultimately the law requires them to meet even those obligations to which they object. In a community, obligations arise from group membership, with their nature and scope determined by the group. Unlike in a market, there is no assumption that obligations will be approximately equal. In a family, for instance, parents have strong obligations to provide for their children irrespective of whether their children will ever reciprocate. People with communal ties to their neighbourhood, church, club and so on will do things for those communities without anticipating any commensurate personal benefit. Communal ties are enforced by social sanctions rather than law and so are voluntary, though their voluntariness differs from market freedom in coming more from a right to exit than an initial act of choice.

Modern societies make use of all three types of social tie. They do so not just because all three serve valuable purposes in themselves, but because in practice they depend on each other to operate effectively. The difficulty of detecting violations and enforcing political obligations means that governments rely on the incentives of markets and the social sanctions of communities to achieve their goals. The difficulty of retaining members means that communities often encourage participation with at least implicit exchanges, such as linking effort and reward, and arrange for governments to give social sanctions the force of law. The difficulty of arranging exchange in a 'state of nature' means that

markets rely on communal ties to supply sanctions in favour of honesty and carrying out agreements, and on governments to establish easily tradeable property rights, money to provide a common medium for exchanging different goods and services, and courts to act as last resort enforcers of agreements.

While the three types of social tie are different, they are to some extent substitutes for each other. In economic life, the production and distribution of goods and services can be carried out by people coordinating their activities according to market, political or communal principles, or a mix of the three. It is in economic life that we find the most heated current controversies over social ties, and in particular over proposals to eliminate some obstacles to market ties. These proposals include reducing restraints on *who* trades by opening business up to competition; imposing fewer restrictions on *what* is traded by legalising prohibited products and services; cutting controls on *when* trade occurs, by for example liberalising trading hours; and minimising regulation of *how* trade occurs by opposing such things as centralised wage fixing. The common thread is that those favouring market ties see more benefits than drawbacks in letting people choose whichever ties they prefer.

Those advocating market ties see their principal opponents as the supporters of political ties. They object to the coercive element in political ties. Communal ties may not always be good for business, as the obligations of group membership make some exchanges unlikely to occur. Religious beliefs mean that some people will not buy pork and that others will not purchase alcohol; more general moral beliefs are an obstacle to the sale of 'adult products', and these beliefs are enforced by the social sanctions available to groups. But these restrictions are not coercive in a legal sense. Those seeking more scope for market ties ask only that people be allowed the opportunity to persuade others of the merit of their product. It is not communal ties as such of which they disapprove, but the use of political ties to enforce communal ties.

Communitarianism emerges as a political force when it is felt that communal ties are too weak. This appears to be one of those times. While Australian communitarianism is lower profile than its American counterpart, as will become apparent below communitarian themes are present in Australian social criticism. Perhaps because those advocating replacing political ties with market ties appear to be politically strong, much of the communitarian critics' attention is focused on market ties. Indeed, many critics maintain that markets are

positively harmful not just to community but to social ties generally. Michael Pusey suggests that 'today's market is the deadly enemy of the society it was supposed to serve' (1991:232). Robert Simons argues that the 'market system' is 'heedless of the basic human need for a cohesive society' (1995:3). In attacking the Liberal Party's free market manifesto *Fightback!*, Peter Vintila alleges that 'it describes a society of self-interested individuals in which mutual concern, common endeavour and human community figure only negatively ...' (1992:6). Ted Wheelwright thinks 'modern free trade involves an enormous breach of community' (1992:46). The economic historian Colin White says that 'strong norms of reciprocity, resting on trust and co-operation, are being undermined, sometimes deliberately in the misguided belief that an atomised market system solves all problems' (1993:82).

The communitarian debate is sometimes difficult to follow. Many subjects are discussed under the heading of 'communitarianism', since so many factors can affect communal ties. The communitarians attack liberalism, individualism and markets, three related but not identical forces. I want to tackle one communitarian charge, which is that markets foster a mentality inimical to communal ties.

Communal ties depend on people recognising obligations other than the chosen and approximately equal. This means they cannot always pursue their immediate material self-interest. Instead, relationships with others – and fulfilling the obligations coming with those relationships, even when contrary to self-interest – are of central importance in preserving communal ties. Because of this, the critics of markets are very concerned with the threat posed by 'economic man', who can be 'understood completely by self-interest motives' (Simons 1995:25). David Wells believes that economic rationalists (as free marketeers are often called in Australia) do not see individuals as 'people, with all that implies in terms of connections to others', but merely as economic units (1990:101). Brian Toohey remarks that 'so long as he does not get caught, Rational Economic Man has no regard for laws, and still less for social conventions, moral principles or the feelings of others. There is no natural urge towards co-operative endeavour, no sense of community, no tribal loyalty ...' (1994:40). According to Eva Cox in her Boyer Lectures,

If we are social beings rather than economic beings, then society is threatened by the presence of Economically Rational Man in public policy. This homo non sapiens is a constructed individual (not a social being) who maximises the short term advantage in most economic models. If he

takes over, he will destroy society because social connections have no place in a world full of self-interested, competing individuals (1995:2).

These critics believe that free market theory sees people as entirely self-interested, and approves of that self-interest. This is not necessarily so. It is, however, true that the assumption that people act according to their self-interest is an essential part of free market theory.

A strength of markets, in the eyes of their supporters, is their efficient provision of consumers' preferred goods and services. Markets have information and incentive advantages over other forms of allocation. Prices indicate the value put on a good or service, with payment of higher prices telling producers that consumers value that product more than the alternatives on which they could spend their money. If consumers are not prepared to follow their self-interest by paying more for the goods they want and less for other goods, producers will have a much harder time working out which goods and services are in actual demand. The prospect of profit from higher prices gives producers incentives to offer those goods and services which consumers prefer. If producers are not prepared to follow their self-interest by responding to the prospect of profits; consumers lose a mechanism by which they can encourage the supply of their favoured goods and services.

For markets to work does not, however, require self-interest construed narrowly as each person pursuing their own material wealth. The 'self' in question can involve more persons than one; and of course many people pursue the interests of their families and others when working in markets. People use market mechanisms to express their preference for objectives inconsistent with their immediate material self-interest. Indeed, advertisers appeal to consumers' altruism. We are urged to 'buy Australian' or to purchase environmentally-friendly products, when according to narrow self-interest we would buy only those products which best satisfied our own needs.

Though self-interest is a necessary assumption of free market theory, it does not follow automatically that free marketeers must encourage people to be self-interested. Early on, free market thinkers did at least implicitly endorse self-interest in preference to zealotry, irrational avarice, parochial loyalty and other dangerous emotions they saw damaging their societies (Hirschman 1977; Holmes 1995:42-68). Modern free market advocacy, however, contains little moral comment on self-interest. Rather, it takes self-interest as a fact of human behaviour, and proposes institutions that take account of this fact.

Indeed, because many free market thinkers build strong self-interest assumptions into their work, they have no reason to advocate self-interest. Why spend time calling for the creation of what is already assumed to exist?

Nevertheless, the link between free markets and self-interest worries those with communitarian priorities. Self-interest can threaten communal ties. Opportunities for personal advancement in the market may encourage the neglect of other obligations. It is not clear, though, that this is likely to be a serious problem.

The critics cited above attack the theoretical assumptions of free market economics. A potential danger here is that economic theories *assuming* self-interest may end up *legitimizing* self-interest. If people come to believe that self-interest narrowly construed is typical behaviour, and if we take it that we learn much about what is appropriate behaviour by observing what others say and do, then exposure to free market ideas might encourage more narrowly self-interested behaviour than would otherwise occur.

A good place to start testing this hypothesis is with those most exposed to free market economic theories, i.e. economists and economics students. Compared to other American academic professions, economists give proportionately less of their income to charity. On the other hand, they spend slightly above average number of hours on voluntary activities (Frank, Gilovich and Regan 1993:162-63). Tests of cooperative intent among students found some support for the view that studying economics encourages self-interest. As people may be attracted to study economics because they are already self-interested, it is necessary to see if continued exposure to economics increases this existing propensity. It was found that, unlike other students, economics students did not become more cooperative as they moved closer to graduation (Frank, Gilovich and Regan 1993:168). However, another experiment found that as compared to students from other disciplines economics students were more likely to return some 'lost' money (Yezer, Goldfarb and Poppen 1996:180-181). The behaviour of economists and economic students provides some modest though mixed evidence for the critics' fears.

However, we cannot draw very much from this evidence. While economics students were sometimes less cooperative than others, they were still prepared to set aside their short-term self-interest. It may be, however, that what is important here is not directly learnt market ideas, but the experience of living in a market economy. The danger is that a market exchange mentality 'infects' other social domains. Markets put

money values on everything traded, whereas some things – communal ties for example – cannot be priced. Oscar Wilde's definition of a cynic is these critics' definition of economic man: someone who knows the price of everything and the value of nothing.

As Albert Hirschman points out in his essay 'Rival Views of Market Society', the idea that social bonds were being dissolved by money is hardly a new one. The 'commodification' critique of capitalism was made in the 1730s by conservative opponents of Walpole and Whig rule, by romantic and conservative critics of the Industrial Revolution, by Karl Marx and Friedrich Engels, and in the twentieth century by, among others, Karl Polanyi and Fred Hirsch (1992:109-117). This intellectual tradition continues in contemporary Australia. Peter Singer says that 'Marx was right to suggest that the free market society, by breaking traditional ties, reducing every bond to the cash nexus and unleashing the forces of individual self-interest, has conjured up a genie that it cannot control. ... The genie ... has eroded our sense of belonging to a community' (Singer 1993:34-35). In January 1995 *The Sydney Morning Herald* ran an article alleging that 'the consumer society and too much exposure to market relations, it seems, are part of the process of losing us friendships, weakening bonds of kinship and bringing less happiness' (4 January). An economist, John Hatch, says that 'we live in an era when the market is spreading into most areas of our lives', concluding that 'one might well wonder what is left for trust and community' (*The Australian Financial Review* 14 November 1995).

It is true that a price is put on more things now than in the past. A particularly dramatic example of this is women's labour. Before World War II, the labour force participation rate of women in the 35-44 age group fluctuated between 15 and 20 per cent. In the early 1960s it was just below 30 per cent. Now it is around 70 per cent (Norton 1994:61). Higher workforce participation by women creates both the need and the resources to 'contract out' activities previously performed in the home without pay. More than in the past, people dine in restaurants or buy take-away food, have others clean their houses and do their gardening, and have their children looked after by paid staff. Lower productivity in the household sector, estimated by Graeme Snooks to be about half to two-thirds of that on the market sector (1994: 28), provides further reason to transfer activities to the market.

Despite this increased exposure to the market, there is little evidence of the negative effects claimed in the commodification critique. An international poll covering 43 countries, though unfortu-

nately using only university students as subjects, failed to come up with any clear relationship between the degree of marketisation and the value attached to money. Hong Kong, according to a study by the Fraser Institute, has the world's most marketised economy (Gwartney, Lawson and Block 1996:xx). Its residents also have an above-average interest in money. But their interest is below that of other countries ranking well-down the list of marketised economies such as Greece (54th), Jordan (57th) and Bangladesh (66th) (Lynn 1991:68). Australian interest in money is below the international mean, even though Australia ranks relatively highly for economic freedom.

These are all comparisons between countries, so it is possible that the importance of other cultural and institutional factors obscure the negative impact of the market over time within countries. Again, though, the evidence is lacking. The commodification critics can at best point to a possible causal mechanism. Yet defenders of the market can respond with a powerful counter-thesis. This is that the prosperity generated by markets helps *de*commodify important social ties. In his critique of communitarianism, Derek L. Phillips argues that 'as institutionalised relationships have come to provide more and more for people's safety, employment, education, medical care, and other basic needs, personal relationships dominated by exchange, instrumentality and calculation have decreased' (1993:193). In line with what we would expect in accordance with this theory, American surveys taken between 1957 and 1976 show more concern with personal relationships and a higher evaluation of personal intimacy (Lane 1991:215). That prosperity allows less concern with economic matters and more with broader quality of life issues is also confirmed by the emergence of 'postmaterialist' voters (McAllister 1992:98-104).

Even the critics' characterisation of commodification is open to question. Putting a money value on something does not of itself exclude it from being valued in other ways. As Viviana Zelizer argues, by 'focusing exclusively on money as a market phenomenon, [the critique] fails to capture the very complex range of characteristics of money as a social medium' (1994:19). Exchanges and traded goods routinely acquire significance that is independent of the market price. We are reluctant to sell things of 'sentimental value'. We will charge less than market prices in transactions with people we particularly value, or pay above market prices if the transaction is part of an ongoing relationship. Just because we know the price of something does not mean we cannot also understand its value.

Economists, economics students and their fellow citizens will not

turn into the 'economic men' of the critics' fears because self-interest is unlikely to become an overriding force in human life. Despite self-interest's significance, it is certainly not the only motive affecting human behaviour. The inclination toward sociability is also immensely powerful. James Q. Wilson argues that this inclination is instinctual, with sociable behaviour evident in babies before they could have learned it (Wilson 1993:123-124). The sociable inclination is evident in the positive emotional response experienced, in varying degrees of intensity, through associating with others, and the negative emotional responses from failing to associate with others. 'Loneliness', according to one study of well-being, 'is almost synonymous with misery' (Headey and Wearing 1992:88). The sociable inclination is also strongly evident in the domains of life people rate as most important to life satisfaction, which are the same throughout at least the Western world: marriage and sex, friendships and leisure, material living standards, work and health (Headey and Wearing 1992:9). Studies of human behaviour in groups consistently show that people cooperate with each other more than you would predict under a pure self-interest model of human behaviour, and that self-interested behaviour decreases with greater opportunities to form personal contact, such as communication (Green and Shapiro 1994:88-91).

Important aspects of life satisfaction, such as marriage and friendship, are based on communal ties. It is far from obvious why people would, in any mass or routine way, risk these to achieve narrowly self-interested goals. Certainly, people make mistakes about what is important in their lives, or fail to get the appropriate balance between the different elements of a satisfactory life. However, this is a long way from saying that the market poses any serious threat to the other domains of life. Our understanding of which values are suitable in which settings gives the spheres of life some autonomy from each other. Jon Elster reports 'Walter Mischel's celebrated finding that the crosssituational consistency in behaviour tends to be quite weak. People can be aggressive at workplace and mild-mannered at home; selfish in one setting and altruistic in another' (Elster 1993:6). But even assuming that there is spillover between spheres of life, so that values learnt in one sphere are applied in another, there is no reason to suppose that it will just be market values corrupting communal values. It would seem equally plausible to believe that the values of community will spillover into the market, and that people will recognise wider obligations even in business settings.

The market's critics also overlook a vital aspect of market institu-

tions. While these institutions operate on the assumption that people will act self-interestedly, they contain mechanisms to reduce the social harm self-interest is capable of causing. In that way, the likelihood of damaging communal ties is diminished.

For consumers, most of the market experience is cooperative. Every transaction with a producer rests on at least an implicit agreement to trade. Usually, any rivalry with other consumers for a scarce good is conducted via the price mechanism. This method of allocating resources largely avoids the need for consumers to experience direct conflict with each other.

Producers share this cooperative trading experience with consumers. For the producer, there are profits to be gained from this trade occurring repeatedly. Robert Axelrod's study *The Evolution of Cooperation* (1984) shows that repeated transactions lay the basis for continued cooperation even among the purely self-interested. If you have a reputation for acting cooperatively, others will deal with you because of their confidence that they will get a fair deal. Repeated transactions means that there is a history to establish reputation, and a future in which bad behaviour can be punished. Long-term profits from cooperation discourage short-term profit-seeking, and encourage building up relationships with customers rather than one-off transactions.

Within businesses, a high degree of cooperation between staff members is usually necessary to perform in the marketplace. Michael Argyle reports on a review of 122 studies of the performance of cooperative and other groups. In most, cooperative groups did better. In cooperative groups there is more likely to be mutual help, with studies of high and low output industrial groups finding the amount of help to be an important factor. Cooperation allows more use of the division of labour, so that the firm benefits from a combination of different skills and knowledge. People like each other more in cooperative groups, which leads to lower absenteeism and staff turnover (1991:125-126). Management, then, has an incentive to organise workplaces so as to facilitate cooperation.

Eva Cox makes much of a dichotomy between 'competition policies' and 'cooperation' (1995:18). This is a false dichotomy. Competition policy is designed to put added pressure on producers. What market critics overlook is that this is fundamentally a pressure to *cooperate*. A criticism of centrally planned economies is that they lack incentives to cooperate. If there is no penalty for ignoring the wishes of consumers, chances are that producers will do so. If there are no incentives to find ways to increase staff cooperation, managers are less

likely to bother. This is the experience of command economies, and of monopolies in other economies. So while markets may allow self-interested behaviour, they have an in-built means of controlling it: competition.

The experience of competition, while useful in controlling self-interested economic behaviour, might encourage competitive behaviour in general. In some spheres of life, such behaviour is inappropriate. The same survey that measured attitudes to money also looked at attitudes towards competitiveness. The results make it difficult to say that economic organisation is fundamental to competitive attitudes. The USA and Hong Kong both rate highly for economic freedom, yet their respective competitiveness scores of 12.76 and 12.64 were only slightly above the mean of 12.19. Countries with experience of communism did not display notably uncompetitive attitudes, with Poland scoring 12, Bulgaria 12.33, and Romania 13.68. The most competitive attitudes were found in the least developed countries, such as Iraq on 14.04, India on 14.48 and the Transkei region of the old South Africa on 16.24. Australia came in at 11.42 (Lynn 1991:61).

Associating the market experience with aspects of human psychology adverse to communal ties is not a good strategy for communitarians. While they identify some intuitively plausible mechanisms by which a market mentality might harm communal ties, the evidence does not substantiate their case. It is at best inconclusive, and often contrary. The reason, I suspect, is that communitarians overestimate the strength of the market mentality, and understate the strength of contrary forces such as natural sociability, the cooperative incentives of market institutions, prosperity reducing the impact of economic necessity, and recognition of the values appropriate to the different spheres of life. All these forces constrain the self-interested propensities that people fear are unleashed by markets.

None of this is of itself an argument in favour of expanding the scope of market ties. Rather, it is a reason for scepticism concerning one set of common concerns about markets. In weighing up the pros and cons of lifting obstacles to market ties, it casts doubt on one communitarian con.

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MARKETS MORALS AND COMMUNITY

Alan Hamlin ■ Herbert Giersch ■ Andrew Norton

Few people today doubt the market's contribution to prosperity, but still there are powerful intellectual traditions opposing the market. The market's current critics fear not so much that it will fail to create prosperity, but that it undermines morality and community.

Markets, Morals and Community contains three essays on these fears. Alan Hamlin's 'The Moral of the Market' looks at various ways in which we can evaluate market institutions. Andrew Norton's 'The Market Mentality' assesses empirical evidence on what markets do to social ties. Herbert Giersch's 'Economic Morality as a Competitive Asset' suggests ways in which market mechanisms encourage moral behaviour.

These essays suggest a much more complex relationship between market institutions, morality and community than is assumed by many of the market's critics.

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