The Moral Conditions of Economic Efficiency

In the late eighteenth century, Adam Smith significantly shaped the modern world by claiming that when people individually pursue their own interests, they are together led toward achieving the common good. But can a population of selfish people achieve the economic common good in the absence of moral constraints on their behavior? If not, then what are the moral conditions of market interaction that lead to economically efficient outcomes of trade? Answers to these questions profoundly affect basic concepts and principles of economic theory, legal theory, moral philosophy, political theory, and even judicial decisions at the appellate level.

Walter J. Schultz illustrates the deficiencies of theories that purport to show that markets alone can provide the basis for efficiency. He argues that markets are not moral-free zones and that achieving the economic common good does indeed require morality. He demonstrates that efficient outcomes of market interaction cannot be achieved without moral normative constraints and then goes on to specify a set of normative conditions that make these positive outcomes possible.

The Moral Conditions of Economic Efficiency does not depend on a particular ethical theory or on the overcited shortcomings of private property economies. Rather, it focuses on the process of market interaction itself to prove that selfishness alone cannot provide for the economic good.

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To my dear spouse, soul mate for life, and best friend,
Mary

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Frontmatter
More information

Contents

Preface and Acknowledgments

I hope that this book contributes to a better understanding of the interconnection between morality and economic behavior. It is intended for those whose interests lie in legal theory, economic theory, moral philosophy, and political theory and for those who are concerned with ascertaining a moral basis for pluralistic, private property democracies. I also hope that the theoretical results of this work will prove useful to policy analysts, judges, legislators, and those involved in developing constitutions for emerging democracies.

Several perplexities, hunches, and heuristically fruitful concepts served to focus my interest in the moral conditions of economic efficiency. I first became interested in this issue while reading Adam Smith's *Wealth of Nations* and *Theory of Moral Sentiments.* It seemed to me then that there was a closer connection between morality and market behavior in Smith's writings than was made explicit. I am sympathetic to and inspired by what I believe is the intent of Jules Coleman's *Risks and Wrongs* and of David Gauthier's *Morals by Agreement.* A pluralistic democracy having a private property economy needs some common morality that respects a pluralism of moral traditions, is capable of guiding the common life of all, and underwrites its legal system. But, at the time, the relationship between morality and markets seemed to need greater clarification before competing traditions could come to any "agreement" or "rational choice contract." Since an overarching issue is social behavior, it seemed that some account of social behavior must be thrown into the mix as well. I found myself intrigued by Ludwig Wittgenstein's notion of a social practice but enlightened by Ronald Koshoshek's views of the same.

Musing over these perplexities, hunches, and concepts led to a closer examination of the presuppositions of the First Fundamental Theorem of Welfare Economics (or First Welfare Theorem), which is a precise version of Adam Smith's invisible hand. Simplifying assumptions cannot be avoided in social science. But sometimes it pays to reexamine those assumptions to see whether they can be expanded to cover other contributing factors. The more I considered the assumptions of the First Welfare Theorem and what they were supposed to accomplish, especially in view of Smith's moral theorizing and pre-Enlightenment views of property, the more I was drawn by the intuition that morality made economic efficiency possible for autonomous people.

I am grateful for the help I have received from several individuals. From Ronald Koshoshek I acquired the background framework of concepts for understanding social behavior that informed this project. Furthermore, his expert and forthright advice was instrumental in my being interested in moral rights and their relationship to economic analysis in the first place.

I am indebted to Daniel Johnson and William Thedinga for our weekly colloquium and for detailed written comments on several entire drafts. This work involves concepts and jargon germane to moral philosophy, economics, and law. There is always a risk of misunderstanding and misrepresentation when one adopts the specialized language of each these fields while addressing oneself to a problem common to all. Their sensitivity to the nuances of those languages and wonderful facility with correct English doubtlessly contributed greatly to the clarity of the finished project and to the accessibility of its ideas to non-experts. Any conceptual errors or stylistic oddities that occur in the manuscript are there because I ignored their advice.

For the uncompromising precision and thoroughness that Norman Dahl and Leonid Hurwicz showed in commenting on earlier drafts; for the intellectual stimulation and multidisciplinary expertise of Norman Bowie; and for the editorial comments, suggestions, and enthusiastic support of Peg Brewington, I am deeply grateful.

A Cedarville University Faculty Research Stipend enabled me to dedicate several months solely to this project.

But more than any, I thank my dear spouse and best friend, Mary, who in the operation of her business has always observed the moral normative constraints discussed herein, who has supported this project in countless ways, and who is happier than I am to see it finished.

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