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Thinking Ethically About Economic Life

Do the standards of morality apply to economic life? Should they? Can they? How?

The daily news is replete with economic issues, and often where both sides of a debate claim that their policy will best serve ordinary people. Should there be tax cuts aimed to stimulate growth or tax increases to pay for underfunded programs? Should electric utility companies face stiffer limits on polluting emissions from their power plants? Should the United States and the nations of Latin America sign a "free trade" agreement? Should the U.S. Congress stiffen the rules for accounting to prevent further corporate scandals like those at Enron? These and many other issues make up the landscape of contemporary economic ethics. Because these issues entail complex economic questions about what would actually be the effects of alternative policies, it might be helpful to begin with a much simpler example.

Most of us would be aghast at a neighbor's being held up at gunpoint and losing several hundred dollars to a mugger. Whether or not we would personally intervene, we would judge this economic loss as thoroughly unjust. However, if our neighbor were laid off from her job at the local manufacturing plant for several months, few would raise an eyebrow, although there might be sympathy for her hardship.

Defenders of the market system argue that the director of human resources at the plant is simply doing his job when sending out the layoff notices. The company president who made the decision to begin the layoffs was "doing his job" as well. He is responsible to the company's board of directors, who, in turn, have a fiduciary responsibility to the stockholders. Defenders of the layoffs would argue that it would be unjust for management *not* to look out for stockholders' interests. They would add that it makes no sense to eliminate profits to keep employees working, because without profits, the firm will go out of business and there will be no jobs at all.

However, critics of this argument point out that in most cases layoffs occur in the absence of any immediate threat of bankruptcy to the firm. Is the layoff of several hundred workers justified if the intended effect is not to avoid bankruptcy but simply to increase the profits paid to corporate stockholders that year? Are there any moral standards to which a business firm should adhere when considering layoffs?

There is a small manufacturing firm in Minneapolis, Minnesota – Reell Precision Manufacturing – that by policy does not lay off its workers during a downturn in demand but rather reduces the wages and salaries of company employees, including those of management. Custodial staff and other workers receiving less than the "target wage" for the firm (approximately the basic rate for manufacturing workers) are exempted from such wage reductions. This firm has survived and even thrived over the years, arguing that employee loyalty more than makes up for any inefficiencies in the process.[1] Not many firms have tried this approach, but if it turned out that it could work more broadly, would there be any moral obligation on the part of boards of directors and stockholders to move to this model and away from the typical process of layoffs during a recession?

One dominant response to such proposals is that this is an example of excessive moralizing that, if institutionalized through law, would undermine the prosperity of the market system. Even though no one is seriously proposing a law that forbids layoffs, defenders of "free markets" regularly oppose proposals to use the power of government to strengthen the hand of labor within the corporation. They argue that the economic success of Hong Kong and the other "Asian Tiger" nations – and the dismal records of economic stagnation in developing nations with activist governments – stands as testimony to the promise that "free markets" hold out for the world's poor.

[1] See Helen J. Alford, O. P., and Michael J. Naughton, *Managing as if Faith Mattered: Christian Social Principles in the Modern Organization* (Notre Dame, Ind.: University of Notre Dame Press, 2001), 135–6 and 146–7.

On the other hand, proponents of additional regulations – such as outlawing the hiring of permanent replacement workers during a strike – point to a long list of social legislation that is now accepted even by the vast majority of conservatives but was originally opposed by the powerful of the day. Unemployment insurance, workers' compensation for injury on the job, anti-discrimination laws, and sexual harassment laws were all opposed by business interests. To take but one example, in the debates about the establishment of Social Security during the Great Depression, Republican Representative James Tabor of New York argued that "never in the history of the world has any measure been brought here so insidiously designed as to prevent business recovery, to enslave workers, and to prevent any possibility of employers providing work for people."[2] Contrary to Tabor's dramatic rhetoric, the economy did recover, businesses went on employing people, and today Social Security is universally recognized as the single greatest reason for lower poverty rates among the elderly. Proponents of such regulations aimed at "humanizing" the market economy remind opponents of the exaggerated claims made by reactionary forces throughout history.[3]

The complexity of these arguments is daunting. There are intricate debates about the empirical impact of various possible government regulations and equally contested arguments about what is morally appropriate. Within the mainstream of the discipline of economics, moral questions are explicitly avoided, out of a conviction that the economist's strength is not in moral but rather in empirical analysis. Economists tend to presume that each economic actor is interested in pursuing only his or her own self-interest. To estimate the effect of a change in, say, a business regulation or tax policy, economists explain that their model reasonably presumes that people will make adjustments in a way that most benefits themselves or most reduces the harm of the necessary change in their own activities.

But critics of this approach in economics object that the picture of economic life taught to tens of thousands of college students in introductory economics courses every year encourages a dispassionate,

[2] Arthur J. Altmeyer, *The Formative Years of Social Security* (Madison: University of Wisconsin Press, 1968), 37–8.
[3] Albert O. Hirschman, *The Rhetoric of Reaction: Perversity, Futility, Jeopardy* (Cambridge, Mass.: Harvard University Press, 1992).

amoral orientation toward economic life, one that tacitly presumes efficiency as the goal of economic life while ignoring morality.

Parallel to the influence of economic thinking about the economy is the even more powerful effect of personal experience in a market economy. Critics of "free markets" argue that as both employees and consumers, people quickly learn that if they don't "look out for Number One," no one else will. And this growing concern for getting the most out of economic life slowly undermines traditional ties of communal concern that used to characterize human culture in nearly every part of the Earth.

Economists focus on small, "marginal" changes, investigating the effects caused elsewhere when any one piece of the system changes. But this approach in any discipline tends to ignore the larger institutional framework within which these changes occur and thus often ignores the cumulative change that a long series of marginal changes will cause. Broad cultural shifts can occur, undermining fundamental moral values. Examples of such critiques from the right include William Bennett's assessment of the erosion of education in Western culture.[4] Critiques from the left point to the drop in the economic security of the average worker and in the position of the labor movement more generally even in a culture in which most persons are themselves workers rather than wielders of the power of property ownership.

Daily life is filled with moral valuation. The very choice to make money is a moral one. Ironically, even economists, whose discipline calls for them to avoid moral judgments, exhibit a remarkable degree of moral commitment in their own vocational decision. Most, when asked why they are economists, report that they want to fix problems in the economic system, or improve the lot of the poor, or contribute to the growth of freedom in the world – responses heard from politically conservative as well as from liberal economists.

Perhaps the most frustrating part of conversations about morality and economic life is the cacophony of voices addressing morality in economic life. Left, right, and center seem to be starting from radically different places and consequently often make arguments that

[4] See, for example, William Bennett, *Our Children and Our Country: Improving America's Schools and Affirming the Common Culture* (New York: Simon & Schuster, 1998).

are simply unacceptable from opponents' perspectives. An attitude of the "culture wars" often dominates. Arguments are not made in an attempt to persuade opponents (where one must take seriously the other's point of view in formulating an argument that an opponent will find persuasive) but rather to confirm the convictions of those already faithful to one's own position (where commonly held assumptions can go conveniently unchallenged).

This book proposes a common framework of issues on which all perspectives, from right to left, about the morality of markets already take a position. Although a common framework will not by itself resolve the disputes, it can make possible a conversation, a dialogue, about strengths and weaknesses of market institutions and their moral context.

The book is divided into two parts, with Part I (Chapters 2–5) focusing on the market as a moral issue and Part II (Chapters 6–8) articulating the framework for analyzing both markets and their moral context, here named "the moral ecology of markets."

Chapter 2 reviews the efforts of three well-known economists – Milton Friedman, James Buchanan, and Friedrich Hayek – to defend markets without recourse to moral argument. In each case these efforts fail, in that each scholar requires (and quietly employs) some form of moral commitment beyond self-interest by citizens to sustain even a libertarian view of markets. Arguments about markets inevitably have a moral dimension, and all participants in the debate are better off to admit this at the start.

Chapter 3 reviews the moral defense of markets and outlines a number of moral arguments frequently cited for "free" markets, those that are generally unrestricted by government regulation. Chapter 4 runs in parallel with Chapter 3, outlining the moral critique of self-interest and markets and the various arguments in favor of putting limits on them.

Chapter 5 outlines the four fundamental problems that all economic systems must address: the allocation of scarce resources to alternative uses, the distribution of goods and services to various persons in the economy, the scale of the economy in the biosphere, and the relations that exist among persons in economic life. The chapter investigates each problem and the extent to which efforts to solve one problem affect the others, in some ways making their solutions more difficult and in other ways more feasible.

Part II begins with Chapter 6, outlining a view of markets and beginning with a spatial metaphor: Markets are arenas within which individuals encounter one another to make or respond to economic offers. The arena itself is defined by the fences that form its perimeter, with each fence representing a prohibition of some activity considered abusive. The chapter briefly recounts the views of various perspectives from left to right politically and economically. It finds that, although the list of abusive activities grows as one moves from left to right on the political spectrum, all commentators, including those on the far right, require that there be some government prohibitions of abusive behaviors before they can have any confidence that the voluntary interaction of self-interested individuals in the market can be just.

Chapter 7 completes this perspective of "the moral ecology of markets" by outlining the three other elements that make up any market's moral context. These include the provision of "essential" goods and services, the morality of individuals and groups, and the presence of the institutions of civil society. Although significant disagreements exist about the proper structuring of each of these three elements, all perspectives from right to left explicitly address, or at least implicitly assume, a preferred structure in each area.

The fundamental argument, then, of Chapters 6 and 7 is that there is indeed an ethically respectable "economic defense of self-interest" in markets, but this argument is often misunderstood, especially by those who most frequently make it. The valid form of the argument is that if the four elements of the moral ecology of markets are properly defined and structured, then one can trust that voluntary interaction of individuals within markets will result in just outcomes. Thus, it turns out to be wrong to ask the question "Are markets just?" Markets by themselves cannot be adequately judged to be just or unjust. Rather, for all points of view from left to right, the assessment of justice will depend not only on the structure for markets themselves but also on the context of markets – that is, on the other three elements of the moral ecology of markets.

Chapter 8 concludes with a summary of the argument of the book and with an extension of it to observe that the activity of lobbying governments, particularly by corporations, cannot be defended by means of the economic defense of self-interest. Although arguments exist within political theory to justify such activity, an awareness of the moral ecology of markets leads one to recognize that the economic defense of self-interest is bounded by and exists only within well-defined "rules of the game." Because lobbying is an attempt to change the rules of the game, the economic defense of self-interest cannot be extended to warrant the exertion of self-interest within the governmental process.

The most fundamental argument of this book is that the lack of a true dialogue on the morality of markets cannot be attributed to the depth of disagreement on the issues at stake but must instead be ascribed to a failure of mutual understanding on the part of the contending parties. Admittedly, the debate over markets becomes more complex when we include not only a careful empirical analysis but the necessary moral analysis as well. The difficulty inherent in this necessary process, however, is not an adequate reason for avoiding it altogether.

PART I

SELF-INTEREST, MORALITY, AND THE PROBLEMS OF ECONOMIC LIFE