MARKET AND MORALITY

Hakan Şahin

The academic interest towards "economics vs. ethics" is revived recently.[1] Studies on the relation between market and ethics came up as a popular topic of debate especially after the arguments of some collectivist authors of the 21st century, regarding the market as an "unethical mechanism that produces inequality and poverty which needs to be replaced with a more ethical system". We hope to examine the relations between market and morality in this study.

Let us start with defining the concepts at hand. Market is a concept that defines the platforms where goods and services are being exchanged in a society. Morality is a criterion of human behavior between those that are perceived as proper and those that are improper. According to this criterion, the rules deduced from the behaviors that are generally perceived as proper are called moral rules or simply morals.

There are some features of moral rules which can be summarized as follows:

1- They emerge spontaneously and hence they are impersonal
2- They are product of human actions rather than human design
3- They are not universal and static, but local and dynamic
4- They reflect the common perceptions of society
5- They have a binding force on human behavior

Markets have some features as well. It is an interesting fact that the features of markets are exactly the same as above. Markets also emerge spontaneously and hence they are impersonal. They are neither up to some person nor devoted to any, but up to everybody and devoted to all. Market is not a designed phenomenon, but one that emerge as a result of human action. For instance, the price of X cannot be determined by a person or a certain group. It emerges spontaneously on a point where the intentions and benefits of its producers, sellers and buyers coincide with one another. We can even add the ones who procure the raw materials and others that are affected by their decisions on the list since they all have an involuntary effect on the price of the product.

Markets are also local and dynamic. Same products may appear with different prices in different markets and it may also change over time. All of these are perceived as so natural since prices reflect the demands and perceptions in a society which also vary by the time and place. One of the most powerful causes behind these demands and perceptions is the morals of that society. Hence we can even argue that markets are also tools by which societies reflect their morals to economic life.

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[1] ROWLEY, Charles (2002). "Özgürlük ve Devlet" (Liberty and the State), Ankara: Liberte Publications, p. 39.

Market is also a binding force on human behavior just like morals. Those who violate the rules of market face economic sanctions like loss and insolvency similar to those who violate moral rules facing moral sanctions like social exclusion, reprimand, etc. Market and morality are also similar to each other in this aspect.

The first classical economist who dealt with the relation between market and ethics in a systematic manner was Adam Smith who was also a professor of ethics. He argued that there is an order in economic life similar to a natural order which can be perceived by observation, intuition and common sense.[2] He argued that market is emerged under the influence of morals in his major work titled "The Theory of Moral Sentiments".

Critics of market often refer to free markets by this term. Free market means the market that is free of intervention by public authorities. Critics often argue that such markets are unethical by the following grounds:

1- Markets promote immoral behavior. We need a system that promotes and protects moral values.
2- Markets provoke self-interest. Self-interest is bad for society. We need a system that promotes mercy and philanthropy.
3- Markets are competitive. Competition promotes greed and leads to corruption. We need a system that allows a reasonable amount of competition but promotes sharing.
4- Markets are prone to be monopolistic. Deregulated markets lead to emergence of big companies that tend to monopolize the market and exploit people.
5- Prices in the market are unfair. We need rules on restricting the prices of basic consumption goods in order to make them accessible for poor people.
6- Markets increase inequality in a society. It makes the rich richer and the poor poorer. We need a system that decreases inequality, closes the gap between rich and poor.

Some points are to be made before addressing these objections.

Free market is based on two basic principles which originate from human nature: private property and voluntary exchange. These are not normative, but descriptive principles. They are not invented or designed by certain people in a certain time and place. On the contrary, they emerged spontaneously over time and discovered by observation. The efficiency of a market depends ultimately on the economic actors' respect to private property and voluntary exchange.

Transactions in a free market are based on mutual consent. In this sense, criticizing the outcome of free markets means criticizing the choices of economic actors, namely consumers and producers. The general tendency of the critics/opponents of free market is often relying on the public authorities to turn things in their favor. In other words, they aim to achieve their ends by using force and hence see the use of force legitimate in

[2] KESİCİ, Hülya (2010). "Adam Smith ve Ahlak Teorisi" (Adam Smith and His Theory of Ethics), Sosyal Siyaset Konferansları Dergisi (Journal), Issue: 58, p. 91.

implementing their personal ideas. This tendency is the weakest point in the arguments of market opponents regardless of their reference to ethics, morality, justice, etc.

This is because of the simple fact that in a debate between liberty and coercion, the side that is obliged to provide a legitimate ground for its idea is the side of coercion. Liberty is the default state of things and a proposition for any kind of coercion always needs a legitimate ground. Even if there is legitimate ground, there needs to be also a proof that shows the proposed use of force will actually make everyone better off than it would be otherwise. The proposed intervention will not be more than an illegitimate violation of human rights if these obligations are ignored.

However, defending the free market does not necessarily mean that all transactions that occur in the markets are somehow efficient, moral or productive, etc. Defending the free market means defending the right to free choice and private property. It does not necessarily amount to defending a certain kind of choice or ideology. It merely amounts to defending legitimacy and opposing coercion.

Let us address the objections now.

Objection 1- Markets promote immoral behavior. We need a system that promotes and protects moral values.

Once again we have to remind that markets reflect the choices of economic actors. So the kind of behavior we observe in a market in terms of morality ultimately depends on the morals of people. If it is immorality we observe in a market, it means the people are being immoral. We need to remember that it will be the same people we rely on when we offer another way of doing things. Giving people more power to eliminate the immoral behaviors which are actually the consequence of their own choices only results in empowering the very behaviors we are fighting against.

The immoral behavior in a market simply indicates a lack of morality in the society and intervening in people's economic decisions is not the way to eliminate it. Immoral behavior can only be eliminated by making moral behavior more popular (and hence profitable) in society. This is something that only free people can do.

Markets do not promote immoral behavior. On the contrary, markets promote moral behavior and punish immorality in a morally educated society.[3] But it won't do it by using force. It will do it by using civil society. A simple example can be put forth here. If there is more than one store in your neighborhood that sells the same products for the same price, you naturally choose to buy from the seller who seems more decent, honest and reliable to you. You naturally expect from those who sell you something to stand by their words and their products when it is necessary. You act by the information you collect from the market on this. Nobody wants to make business with a grumpy crook.

[3] ACAR, Mustafa (2002). "Ahlak Piyasanın Neresinde?" (Where is Morality in the Market), Piyasa Dergisi (Journal), Issue: 4, pp. 15-16.

You can even further your expectations in morality by seeking the traders from your own religion, community, political ideology, etc. This of course depends on the possible choices you have in the market which ultimately depends on the freedom to enter and do business within that market.

People that use the public authority in a regulated market are given the authorization to determine who may engage in which business and how according to their subjective perceptions of morality. This may decrease the number of choices in front of us or even leave us without a suitable choice when we don't share the general perception of those in power. In a free market however, the producers are in competition with each other to satisfy the demands of consumers as best as they can which almost always includes moral values like honesty, decency, integrity, reliability, etc. Since these values are not up to a specific group in society, but reflect a plurality; every seller and buyer will have a choice to make business with people of similar beliefs and morals. This can only be achieved by the demands of civil society rather than the coercive power of government.

Civil society in a free market constantly promotes moral behavior. However, the definition of moral behavior varies from person to person. If this should be perceived as a problem, two things can be done about it. If we choose to impose morality by force, it is doomed to leave some people without choice and satisfaction since not all people share the same views about morality. If we choose to leave the market unregulated, some people still might be unsatisfied but there will be choices for them too if they are not so few. Therefore, leaving the market unregulated (or deregulating it) is the only way to provide people with sufficient choices of various moral backgrounds.

Objection 2- Markets promote self-interest. Self-interest is bad for society. We need a system that promotes mercy and philanthropy.

Self-interest is a natural sentiment that allows people to survive. Even for having a sense of mercy, philanthropy, etc. and acting consistently, one should first survive and have a sense of self-interest up to a reasonable point where he/she has the opportunity/luxury to afford such feelings and behaviors. We can even argue that if nobody has self-interest there will be no philanthropists around, since nobody will have the economic resources to afford philanthropy which is a matter of economic conditions as well as a matter of morality. Economic conditions can be improved by production and production needs capital. Production and capital are both the causes and effects of one another which are both motivated by self-interest. Like Adam Smith put in words in his famous work:

> "*It is not from the benevolence of the butcher the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.*"[4]

[4] SMITH, Adam (1776). "The Wealth of Nations", Pennsylvania State University: The Electronic Classics Series (2005), Book I, Chapter II, Paragraph II.

Moreover the concept of interest is subjective and it may not necessarily refer to material interest. Some may give priority to material interest while others may give priority to immaterial kinds of interest like an ideology. Their behaviors will not change in terms of economic logic. Both will need resources to attain their ends, and they need to produce and offer things to other people in order to earn those resources. The level of freedom in the market determines the easiness they both have in doing these things.

The producers in a free market strive to offer the goods and services that the consumers demand. They invest, take risk, and make an effort to produce newer products with higher quality and/or lower cost than it was before. The earned income returns to the procurer as his fee, to the worker as his wage, to the employer as his profit, and all of these earnings return to the economy as more spending which becomes the income of someone else. This workflow is affected by lots of individuals who are all aware of their different self-interests. So the self-interest in producers and consumers is a sentiment that plays a vital role in the efficient allocation of resources. Adam Smith famously said the following in explaining this workflow:

> *"(The entrepreneur) By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good."*[5]

It is true that market promotes self-interest, but self-interest is not a sentiment that necessarily results in a negative outcome. Self-interest in such arguments is confused with selfishness. Selfishness is morally bad and markets do not promote selfishness. Consumers may very well punish those selfish producers by not buying anything from them (if they so desire), and the producers may be forced to leave their selfish behavior or face the loss of their profits.

The mercy and philanthropy in the market depends on the wealth of economic actors more than it depends on their moral education. You cannot have it if you don't have the means for it. Wealth depends on the purchasing power of people which depends on the decrease in prices and/or the increase in incomes. The competition in a free market serves to both of them and increases the overall wealth of people. In other words, free market helps people produce resources that will make it possible/affordable for them to be philanthropic. It only then depends on the people's level of morality and their choices.

Objection 3- Markets are competitive. Competition promotes greed and leads to corruption. We need a system that allows a reasonable amount of competition but promotes sharing.

It is perhaps one of the biggest blessings that people have a sense of competition. Competition, the desire of being superior to others is the essence of social, economic, scientific and moral development. Competition is the main reason that we are able to find products we need in the market with a price we are able to pay. The alternative to

[5] SMITH, Adam (1776). "The Wealth of Nations", (…) Book IV, Chapter II, Paragraph IX.

competition in the market is monopoly. There is no choice in a monopoly market. Consumers have only the option to go along with what is offered to them or go without.

Competitive markets on the other hand are in a constant struggle to provide the consumers with better quality for a lower cost. This struggle itself allows a continuous decrease in prices, an increase in purchasing power and hence economic welfare, the more transformation of corporate profits to investment and employment, an increase in wages and specialization thereof. Competition is the ultimate enemy of monopoly. Frédéric Bastiat brilliantly showed in his famous satirical work, *Candlemakers' Petition*, how the regulations aimed for protecting local producers against foreign competition in fact condemn people with low quality products and expensiveness.[6]

Objection 4- Markets are prone to be monopolistic. Deregulated markets lead to emergence of big companies that tend to monopolize the market and exploit people.

It is impossible for a monopoly to emerge in a free market, let alone survive in it because of the simple fact that it is free for any other entrepreneur who seeks to share in the prospective profits of it. Historical facts show us that a monopoly can only be possible by the aid of government intervention. Monopolies arise when the government favors some producers over others by subsidies and more commonly legal privileges. It arises when government restricts the production of some goods and services (either by regulation or by state tender) to a company or a state-owned enterprise and bans it for others. One obvious example was the Tekel (in Turkish literally: Monopoly) company in Turkey that was established by law for the production of tobacco and alcoholic beverages.

Many states have monopolized the public (!) utility services such as electricity, water and gas. It is either provided by the government itself, or by certain companies which are protected from competition by regulations. There are more indirect examples like the history of "Şen Şapka" (Merry Hat) in Turkey. It was a store in the centre of Istanbul which struck gold by the dress code regulation in early years of the Republic of Turkey. The famous hat law imposed on all citizens to wear a modern hat rather than the traditional fez or turban, and banned every other kind of headwear. This law made the store a monopoly in the sector and its owner, Vitali Hakko so rich that he later turned the store into the famous fashion company of today called Vakko.

Regulations on quality standards also result in some companies' becoming a monopoly over time. Whatever quality standard defined by the lawmakers as a condition, favors the producer(s) over others and protects the former against competition by banning the latter to do business with low quality products, violating their rights to work. There are no such favors in a free market. All companies are rewarded and punished by the one and only judge: the consumer. Companies have to strive for pleasing the customers in order to survive in the market. Growing companies in this sense do not create a bad

[6] See: BASTIAT, Frédéric (1845). "Candlemakers' Petition" in "Economic Sophisms".

situation for the consumer, but creates a better one by becoming able to offer even lower prices for its customers and higher conditions of employment for its personnel.

One should not forget that no matter what the size of a company is, it is unable to sell a product to someone unless he/she agrees to buy it. The company is further unable to punish, imprison, banish someone for that he/she did not buy its product or chose to buy someone else's. These are only done by governments that regulate the market. When the laws impose on you to wear uniforms in certain occupations, use certain tools and accessories, the producers of these goods are provided with a governmental (often monopolistic) profit.

Objection 5- Prices in the market are unfair. We need rules on restricting the prices of basic consumption goods in order to make them accessible for poor people.

Talking about prices in terms of fairness is against the notion of justice. Justice is a concept about procedures, not about situations. Defining a situation as fair or unfair makes no sense. It only makes sense if it is used for defining the procedures where fairness stands for the observance of certain rules, namely the rules of justice. The main rule of justice in the market is consent. According to this, a transaction that depends on the consent of parties is considered as a just/fair transaction and that depends on coercion is considered as an unjust/unfair one. The transaction people make or the prices they afford to pay may seem irrational to us, but we cannot argue on this ground that it is an unjust/unfair transaction. We can quote a good example from Atilla Yayla:

> Let us assume that two individuals are realizing a transaction which involves the exchange of a camel in return for a flea. Is this a fair transaction in general or in the perspective of the parties? How are we supposed to define it? It seems that we are in a tough situation at first. The subjects of exchange are so different in terms of physical condition and the benefits that can be expected from them, we tend to argue that it is an unfair transaction by which the flea owner deceives the camel owner. But according to the theory of procedural justice, it can be a transaction which is totally fair so long as the parties observe the rules of justice. In fact, it is better not to be so hasty about defining such a transaction as unfair. Since as an outside observer that lacks the knowledge about it, we are much likely to make a wrong decision based on imperfect knowledge.
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> (…) We can reason on how it goes as follows: The flea may be one of a kind; the camel owner may be "fleaphile" or a collector of fleas; the camel owner may be thinking that the costs of owning such a camel is unaffordable and it is better that he gets rid of it fast; the camel owner may be trying to establish a good relationship with the flea owner for a future transaction; the camel owner may be trying to donate the camel to the flea owner implicitly; the camel owner may be wondering how others will react to such an action… As it seems when we gain insight into the transaction, we might as well face situations that we could not think of before. Hence the procedural justice renders economic transactions

> as fair or unfair based on its form, rather than its content; and based on whether or not the rules of justice are observed in the process, rather than what it brings to and takes from the parties.[7]

Prices are market's mechanism of knowledge. They function in revealing the state of supply and demand in the market. When the prices are relatively high, it points to a surplus in demand and a shortage in supply. Thus it attracts entrepreneurs to enter that sector and join the competition with innovations which will cut down the prices. When the prices are relatively low, it points to a saturation of demand and a surplus in supply. Thus it urges the entrepreneurs to pull out of that sector and use their capital in other sectors where there is more demand. In short, prices are the communication system of markets and thanks to this system, the prices continuously fall, the needs of consumers are met more efficiently, the wealth and purchasing power spreads among the society. But for all of these to happen, prices are to be formed freely. Otherwise, interventions in prices manipulate the flow of information and mislead economic actors.

Objection 6- Markets increase inequality in a society. It makes the rich richer and the poor poorer. We need a system that decreases inequality, closes the gap between rich and poor.

Market produces wealth through competition and voluntary exchange. Everybody benefits from this wealth, but those who benefit the most are the poor. The situation of poor people in places where market efficiency is high is way better than it is where market efficiency is low. The immigrations show that people prefer being middle class citizens in Europe or US rather than being rich in Middle East or Africa. The reason is the opportunity of enrichment that free markets provide. Deregulated markets offer hard working people to be remunerated well. So people choose to live the consequences of their own economic decisions freely rather than live that of someone else's.

Moreover, the inequality in a society in terms of wealth or income does not necessarily indicate a negative situation per se. The important things are the general quality and diversity of available goods and services in the market as well as how efficiently and sustainably people reach to them. We can argue as an example that it is more preferable to have 2000$ of purchasing power in a place where the difference of income between the lowest 10% and the highest 10% of the population is 1 to 20, than to have 1000$ purchasing power in a place where that difference is 1 to 10 (more equal). People are more concerned about their power in reaching goods and services more efficiently than they are about how many times the rich are richer than them. The most important things for the individuals are first, their own purchasing power and second; the quality, diversity and sustainability of the available goods and services provided by the market. In a productive society where the average person has enough wealth in this sense, the wealth gap between rich and poor is very insignificant.

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[7] YAYLA, Atilla (2013). "Piyasa Medeniyeti" (Civilization of the Market), Ankara: Liberte Publications, pp. 33-35.

CONCLUSION

There is generally a positive relation between market and morality. Producers in a deregulated market have to avoid going against the public morality in their business whether they like it or not. Contrary behavior will face reaction by the consumers and hence create a situation to the detriment of the producer. On the other hand, a moral and educated society will tend to respect people deciding for their own lives and therefore consider the plurality in the market as a benefit, rather than a problem. In short, market supports morality as well as morality supports the market.

Conflicts are inevitable in a society where people do not recognize a living space for actors with different choices. Coercive policies of any group that gets their hands on the political power to their dissenters in the name of morality will lead to a political (and economic) polarization, the division of resources and their less productive uses thereof. Wealth however, depends on large scaled enterprises which require the gathering of capitalists and investors based on mutual consent and trust. The only system that allows it is the one that respects every individual’s right to private property, voluntary exchange and cooperation; namely the free market economy.

RESOURCES

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