

## The Quest for “Mutual Understanding”: A Response to *The Moral Ecology of Markets*

Bruce G. Webb, Gordon College

**D**aniel Finn’s book will be of great interest to all who participate in or monitor from the outside the “morality of markets” debates. Christian economists should take a special interest for two reasons: first, because our faith compels us to strive for justice and investigate charges of injustice<sup>1</sup> and second, because our training as economists gives us the necessary understanding of how markets work, which, in these debates, is often in short supply. But can anything new be said on these matters? Finn claims that, “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 be ascribed to a failure of mutual understanding on the part of the contending parties” (p. 7). We shall see below whether or not Finn is successful in advancing the cause of “mutual understanding.”

The gist of Finn’s argument runs along the following lines. Libertarians seek to defend markets without recourse to moral claims. At this they have failed, because any defense of markets necessarily involves some moral claims, and indeed libertarians do accept some claims, though often implicitly. Having made this point, Finn sets forth several specific claims made by those who would defend or criticize markets on moral grounds. No attempt is made to resolve these claims and counter-claims.

Instead Finn proposes that we view the debates about markets as disagreements about how we should address the “four problems of economic life”—allocation, distribution, scale, and quality of relations—which all economic systems must address. “The point of this schema is to sort out the four problems from one another and to provide a way to get all four sets of issues on the table when some parties to the economic policy debate conveniently forget about the other three problems in their enthusiasm for solutions to one of them” (p. 98). The relevant choice in the twenty-first century, he suggests, is not between addressing these problems through totally free markets on the one hand, or some sort of centrally planned system on the other, since all real-world economic systems include some mix of markets and government involvement. Market systems provide some boundaries that limit or prohibit certain practices, and planned economies allow some decisions to be made by individuals.

Furthermore, the morality of markets cannot be judged in isolation from the “moral ecology” within which they operate. This moral ecology

begins with the “construction of fences” that defines the bounds of allowable market activity. Activities that are considered to be “abusive”<sup>2</sup> are prohibited while within the established fences people are free to pursue their own interests. Finn introduces the metaphor of “fences” to describe the way in which a society allows certain activities and restricts or prohibits others. What is in dispute is not having fences or not having them at all, but about where to construct the fences. Even Libertarians, Finn notes, rule out certain actions (fraud, coercion). In addition to establishing fences, the moral ecology of markets includes “the provision of essential goods and services, the morality of individuals and groups, and civil society” (pp. 126–127).

In brief, Finn seeks “true dialogue” and “mutual understanding” between market critics and defenders through common recognition of four propositions. First, the defense or criticism of markets necessarily involves explicit or implicit moral claims. Second, all economic systems must address the same set of problems. Third, the relevant question is not whether there should be limits placed on markets, but where to define the limits. Fourth, markets are defended or criticized within the context of a moral ecology.

Two points stand out in this account of the morality of markets debates that I find especially helpful. First, Finn argues convincingly that any defense or criticism of the market necessarily involves explicit or implicit moral claims. Those who defend markets do so because they think that markets lead to desirable outcomes, while market critics find certain outcomes undesirable. But what are judged to be desirable or undesirable outcomes depends on the moral values of the person passing judgment and (I would add) the rank that each value holds in his or her moral hierarchy. The latter is especially important in the economic sphere where tradeoffs are inevitable. Willingness by all parties to acknowledge and openly state their moral values would certainly promote mutual understanding.

Second, Finn makes a compelling case that markets are properly evaluated within their moral ecology. Markets are more likely to gain broad support when market participants act honestly most of the time, when the poor are protected with a safety net, when laws are fairly enforced, when discrimination is outlawed, and when churches and other organizations provide assistance to those whose chances of success in the market are limited (the sick, the disabled, the elderly). From a strategic point of view defenders of markets would do well to acknowledge that this is the case (as some have<sup>3</sup>) and seek to improve upon the existing moral ecology. Likewise, market critics could promote mutual understanding by specifying the sort of moral ecology that would make markets acceptable.

While acknowledging these strengths, I will now address some shortcomings of Finn's book that hinder the goal of mutual understanding. The first is his treatment of "self-interest." Others involve the omission of important topics that affect the likelihood of achieving mutual understanding.

Concern about the morality of, and needed curbs on, self-interest is central to Finn's argument, since if self-interested behavior leads to "abusive" outcomes, it should be regulated or prohibited. Finn asserts that "mainstream economics today presumes that every action taken by the individual is self-interested, in the sense that it pursues some interest of the self" (p. 55). This "dominant view," he suggests, is a form of "psychological egoism," which claims that every human being seeks his or her self-defined good, which might include the interests of others. He points out that such a proposition is tautological and thus yields no testable predictions. To get around this problem he defines what he calls "narrow self-interest," which "refers to actions in which the self (perhaps including a few loved ones near the self) is the intended beneficiary of the action" (p. 58). Furthermore, he rejects the notion of self-interest "rightly understood" as it fails to distinguish between actions taken to serve the self, that happen also to help others, and actions taken with the intent of helping others, that happen also to benefit oneself. The latter is worthy of moral praise, on the basis of intentions, while the former is not.

Does Finn's account of self-interest promote mutual understanding? I think not for three reasons. First Finn, along with many economists and critics of economics and markets, fails to distinguish carefully between the complex set of motives that actually drive human action, and the way economists model these motives. In economics, self-interest is a simplifying assumption that is not meant to capture the full range of human motivations. While our economic models begin with "the (representative) individual"—formerly "economic man"—who is assumed to act in a narrowly self-interested way, there is no need to assume that all "real world" individuals are narrowly self-interested. All that is necessary is for individuals to be narrowly self-interested, or at least to act as if they were, for economists to make good predictions.

Furthermore, the ultimate purpose of such modeling is to make predictions about markets, not individuals. Economists do not possess all the necessary information about tastes and motives to predict individual behavior. Some individuals will respond to changes in market incentives in ways that run counter to the predictions of our models. The goal, however, is to predict market outcomes after a change in one relevant variable, often

a price, at the margin, while holding other factors constant (tastes, morals, etc.).

As Lunn and Klay (1994) observe, economics predicts that elimination of the tax deduction for charitable contributions will reduce the overall amount of such contributions. Some individuals, at the margin, will reduce their contributions by various amounts. Others may not change their level of contributions, while a few may increase their contributions. But none of this matters as long as the goal is to predict the effect on aggregate contributions. And there is little doubt that aggregate contributions will fall. Again quoting Lunn and Klay (1994): “Does the neoclassical economic model completely describe human behavior and motivation? Obviously not.... Economics does not try to explain the behavior of every specific individual. Instead the theories are intended to explain and predict the net result of the actions of many people” (pp. 147–148).

Second, Finn’s account of self-interest fails to recognize that in most market exchanges neither the buyer nor the seller takes explicit account of his or her self-interest, nor the interest of others, but each simply “goes about his or her business.” When I stop on the way home from work to buy a loaf of bread and a gallon of milk, I make no utility calculations nor do I consider possible tradeoffs. I simply select the items, pay my bill, and head for home. The “problem” of self-interest arises only when I as an economist (or someone else) seek to analyze my behavior. My decision can be analyzed as one in which I seek my self-interest because I base my decision on factors such as convenience, bargains, and other factors that matter to me, but such expressions of self-interest are surely benign.

But how often do “abuses” arise on account of self-interested behavior? A bit of introspection is helpful here. If each of us reflected on the many economic transactions we have undertaken in the past year we would likely conclude that the vast majority of these transactions occurred without the slightest hint of “abuse.” I am generally satisfied with the results of my transactions, and if I am not, the situation is usually corrected. As far as I can tell the seller with whom I do business is also satisfied. This is what happens when we have competitive markets and people freely exchange with one another. This is not to say that self-interested behavior never leads to “abuse.” One need only recall the scandals at Enron, WorldCom, and Tyco (among others) to demonstrate self-interest run amok. But I would venture that in the vast majority of cases self-interested behavior does not do so, and this leads me to conclude that the burden of proof falls on market critics to show the conditions under which abuse is likely to occur.

A third troubling aspect of Finn's account of self-interest is that he seems to equate self-interested behavior with market behavior. In defining market boundaries as those within which self-interested behavior is allowed to operate, he ignores the theory and evidence that such behavior can and does arise in government and, I suspect, all human institutions. As the field of Public Choice Theory has made clear, politicians and government bureaucrats may be motivated by self-interest in the same way as market participants. As a result, "abuses" can be expected in the political arena as well as markets. A government bureaucrat might seek to enlarge his budget, or the number of workers reporting to him, so as to increase his salary or prestige rather than to improve service to the public. A politician might support new government spending in his or her district in spite of large budget deficits. In my view, self-interest is a human characteristic that has been affected by the Fall. The institutional environment in which we find ourselves gives shape to the ways in which we exercise self-interest, but does not make us more or less self-interested.

This line of thought is relevant to an assessment of Finn's claim, in the final chapter, that corporations should not be allowed to lobby. Finn claims that it is wrong, because "when firms are involved in the process of creating the fences . . . they are involved not within the market but in the definition of the market" (p. 150). Using the analogy of a hockey game, he asserts that a team is justified in pursuing its self-interest (winning) within the rules of the game, but not in proposing rule changes that would give the team a clear advantage. Firms, then, can rightly pursue their self-interest within the rules (fences) established for market activity, but ought not to lobby to create or amend the rules themselves. The concern here is that if self-interested parties set the rules, then the rules themselves are likely to be unjust.

It is interesting that Finn limits his concern to lobbying by firms. But what about (self-interested) consumer groups, (self-interested) trade unions, or (self-interested) environmental groups? It would seem to be a real stretch to view such interest groups as being concerned only with the common good. Would Finn prohibit lobbying by these groups as well? Special interests always claim that the policies they endorse will serve the public interest, and it is possible that they will, but such policies will surely bring benefits to the interest group.

This brings us to a "which came first" question: Do firms (and others) lobby because they know that politicians are ready and willing to exchange favored treatment for campaign contributions? Put another way, does the problem lie with the lobbyists (and their principals) or with the politicians? I suspect that it lies as much with the latter as the former.

The decision to lobby (i.e. engage in rent seeking) seems to me to be well explained by public choice economics. Firms compare the expected return from investing in productive activities with the expected returns from rent seeking, and direct their resources to whichever option they expect to yield the greater return. Other interest groups do the same. If lobbying by one interest group (i.e. firms) is banned because it would seek to change the rules-of-the-game in order to gain some advantage, such a ban should apply to other interest groups as well.

Moving beyond his treatment of self-interest, I believe that Finn has omitted, or given insufficient attention to, some important matters that bear on the potential resolution of conflicting moral claims. The first of these is the important connection between moral claims about the market and the “traditions of moral inquiry,” to use Alasdair MacIntyre’s phrase, out of which they arise. According to MacIntyre (1988), moral claims necessarily draw from and are defended on the basis of the resources provided by some tradition. In his words, “There is no standing ground, no place for enquiry, no way to engage in the practices of advancing, evaluating, accepting, and rejecting reasoned argument apart from that which is provided by some particular tradition or other” (p. 350). Later he says that

... it is an illusion to suppose that there is some neutral standing ground, some locus for rationality as such, which can afford rational resources sufficient for enquiry independent of all traditions. Those who have maintained otherwise either have covertly been adopting the standpoint of a tradition and deceiving themselves and perhaps others into supposing that theirs was just such a neutral standing ground or else have simply been in error (p. 367).

I am convinced that MacIntyre is correct, and have argued so elsewhere (Webb 1994).

Traditions are necessary because they provide us with the “rational resources” to engage in moral inquiry and out of which to construct moral arguments. But they also make it more difficult to reach agreement because each tradition sets the ground rules for judging moral claims. These rules include agreed upon first principles, foundational texts, and the nature of acceptable evidence. What stands as a perfectly defensible claim from the perspective of one tradition may be viewed as false from the perspective of another tradition.

Second, although Finn rightly points out that one cannot defend or criticize the market without adopting explicitly or implicitly some moral claims, he fails to make clear the equally important and valid point that moral claims about complex systems such as markets will always involve explicit or implicit empirical claims. For example, among the criticisms

Finn lists are the claims that “Markets encourage greed” and “Markets threaten the environment” (p. 62). His list of moral arguments for markets includes the claim that “Markets encourage invention and technological change” and that “Markets encourage political freedom and democracy” (p. 41). Taken at face value these are not moral claims at all, but are strictly empirical claims that can be argued using the methods of empirical analysis. Of course, embedded within each of the claims cited above is an implicit moral judgment: greed and threats to the environment are bad; technological change, freedom and democracy are good. But agreement on these implicit moral values will not necessarily produce agreement on the claims as stated by Finn. The latter will require empirical as well as moral analysis.

This suggests a third missing element in Finn’s account. Sometimes, we can agree on “abuses” but disagree about the means to eliminate them. For example, we might agree that assistance is needed for workers whose wages fall below a certain level, but disagree about what should be done. Some will propose an increase in the minimum wage. Others will oppose this policy on account of concern for the unemployment effects of the minimum wage among the very people that the policy is intended to help.<sup>4</sup> They might instead propose an expansion of the EITC or more money for job training. The contending parties agree on the goals but disagree about how best to achieve them.

Finn concludes his book on an optimistic note:

In sum, the most fundamental conviction behind the argument in this book is that all participants in the debate about the justice of markets are already addressing the same four elements of economic life and taking positions on the same four elements of the moral ecology of markets. In spite of significant differences of perspectives, because we have common problems to face and a common framework in play, what we need is a common conversation (p. 154).

Who indeed could oppose this “common conversation”? Yet the success or failure of conversation will depend crucially on the extent to which we recognize how our views have been shaped by one or more “traditions” of inquiry: theological, moral, and economic. Good will alone will not bring about a fruitful conversation. For that we need to understand the assumptions and “rational resources” provided by our various traditions of inquiry, and look for common ground with those who draw from quite different traditions.

Over the years, members of ACE have been involved in numerous conversations about the role of government in the economy (i.e. the construction of fences) and the morality of markets. Some of these conversations (e.g. the Baylor conference in 2002) bring together economists, theologians, and social ethicists in an effort to find common ground. I have found these efforts to be hugely frustrating and, if judged by the goal of seeking common ground, utter failures. I doubt that I am alone in this experience. The various parties tend to talk past one another, using different language, and invariably fail to understand the other's point of view. Members of ACE will acknowledge similar sources of disagreement among the body of Christian economists.

This brings us once again to the matter of traditions. In addition to coming from different theological traditions, Christian economists align themselves with different economic paradigms (traditions) that affect the ways in which they view and understand economic realities and the ways in which they go about resolving disagreements. If the body of Christian economists, given what we hold in common, finds it difficult to resolve disagreements, how much more difficult will it be for the far more heterogeneous body of those engaged in the morality of markets debates? In spite of Daniel Finn's best efforts I am unable to share in his optimism.

### **Endnotes**

- 1 See William Temple (1977). "The Christian cannot ignore a challenge in the name of justice. He must either refuse it, or accepting it, devote himself to removal of the stigma. The moral quality of the accusation brought against the economic and social order involves the Church in "interference" on pain of betraying the trust committed to it" (p. 37).
- 2 I wish that Finn had chosen another word. Some readers might minimize the breadth of the outcomes and behaviors he has in mind by limiting them to the worst (truly abusive) cases. Others might conclude that all undesired actions or outcomes are equally morally reprehensible.
- 3 Though he reaches conclusions with which Finn might disagree, I find Michael Novak's vision of "democratic capitalism," with its three mutually reinforcing components—a capitalist (market) economy, a democratic political order, and a vibrant moral/cultural order—to present another, but not incompatible, version of moral ecology.
- 4 See the recent comprehensive review of the evidence by Neumark and Wascher (2006).

**References**

- Lunn, John and Robin Klay.** 1994. "The Neoclassical Economic Model in a Postmodern World." *Christian Scholar's Review*. XXIV (2), pp. 143–163.
- MacIntyre, Alasdair.** 1988. *Whose Justice? Which Rationality?* Notre Dame, IN: University of Notre Dame Press.
- Neumark, David and William Wascher.** 2006. "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research." Working Paper 12663, National Bureau of Economic Research.
- Temple, William.** 1977. *Christianity and Social Order*. NY: The Seabury Press.
- Webb, Bruce G.** 1994. "Whose Theology? Which Economics?" *ACE Bulletin*. 23, pp. 45–62. ■

Moral hazard is unfair behavior of the agent generated by informational asymmetry about endogenous variables (e.g. agent's efforts, their realizations or other events) Hence, the principal aims to create such motivation schemes, which encourage the agent to make actions in accordance with principal's interests. - agent. - principal. Moral hazard in the open corporation.

- Relationships "actioner" manager
- Property rights are fully separated from control
- Management is professional
- Delegation of authority
- Possibilities of manager's opportunism. Examples of opportunism by managers.
- Consumption in the workplace
- Distortion or concealment of important information
- Participation in transactions involving excessive risks
- Entering into costly long-term projects with.

Ecology (from Greek:  $\acute{\alpha}\lambda\eta\theta\acute{\epsilon}\iota\alpha$ , "house" and  $\sigma\upsilon\lambda\lambda\acute{\alpha}\beta\eta\varsigma$ , "study of") [A] is a branch of biology concerning the spatial and temporal patterns of the distribution and abundance of organisms, including the causes and consequences. Topics of interest include the biodiversity, distribution, biomass, and populations of organisms, as well as cooperation and competition within and between species. Ecosystems are dynamically interacting systems of organisms, the communities they make up, and the non-living components of How Coronavirus Is Shaking Up the Moral Universe. The pandemic is putting profound philosophical questions to the test. By. It's intuitive to view moral problems through a utilitarian lens and then to find outcomes like this distasteful, and to reject them because they conflict with the golden rule. If the lockdowns drag on for months, utilitarian ideas may bubble back to the surface. Libertarians. John Authers is a senior editor for markets. Before Bloomberg, he spent 29 years with the Financial Times, where he was head of the Lex Column and chief markets commentator. He is the author of "The Fearful Rise of Markets" and other books. Read more opinion Follow @johnauthers on Twitter.