

Capitalism and Morality

“ENABLING ETHICAL BEHAVIOR THROUGH FREE MARKETS”

Gennady Stolyarov II

Contrary to widespread belief, free markets do not substitute self-interest for morality. Free markets enable moral action by channeling existing self-interest into conduct benefiting both the individual and those around him. Free markets harmonize self-interest and morality by ensuring that individuals prosper by bringing valuable services to others. Furthermore, free markets have inaugurated some of history’s greatest moral advances – including the advent of religious toleration in the Western world. Free markets accomplish widespread moral improvement by facilitating peaceful coexistence of divergent beliefs, preferences, and behaviors – eliminating enforced homogeneity of ideas, tastes, and actions.

Self-interest does not characterize market systems alone; humans exhibit self-interest universally. Frederic Bastiat noted that “[s]elf-preservation and self-development are common aspirations among all people.”¹ Self-interest is simply the desire to improve one’s condition; by itself, it does not necessitate any particular course of action. The behaviors resulting from self-interest can vary dramatically depending on the incentives individuals face. Do the incentives enable individuals to gain through their own hard work and honesty? Or do the incentives favor individuals plundering one another? Bastiat notes, “[S]ince man is naturally inclined to avoid pain – and since labor is pain in itself – it follows that men will resort to plunder whenever plunder is easier than work.”² Thus, all human societies face the challenge of establishing incentives whereby individuals will always perceive work as easier than plunder. Individuals of diverse moral persuasions will agree that earning one’s wealth via honest production is superior to seizing it from another. Hence, a system that enables honest production to prevail over plunder would accomplish tremendous moral improvement relative to alternatives.

Ayn Rand identifies free-market capitalism as “a social system based on the recognition of individual rights, including property rights, in which all property is privately owned.”³ Under a purely free market, each individual has his own realm – comprised of his body, ideas, actions, and possessions – all subsumed under the concept of property. Through property rights, free markets render work easier than plunder. As Peter Hill argues, “[u]nder a set of well-defined and enforced property rights, the only transactions people engage in are ‘positive-sum’ or wealth-creating transactions, those that occur because all parties to the transaction believe they will be better off as a result.”⁴ If each individual is absolutely sovereign over his property, then he would only use this property in ways he believes will improve his own condition. But this is also the case for anyone with whom that individual interacts. Thus, any interaction in a free market only occurs if all parties consider themselves better off thereby. No individual would permit himself to be victimized or plundered; no individual would consent to actions he deems detrimental to his self-interest. If anybody in a free market tried to forcefully expropriate an individual, the law would quickly assist the victim. One of a private property system’s defining characteristics is that “a person who injures another or damages another’s property is responsible for the damages, and courts enforce this responsibility.”⁵ Thus, a zero-sum world where one can gain only if another loses is impossible under free-market capitalism.

¹ Bastiat 1850

² Bastiat 1850

³ Rand 1967, p. 19

⁴ Hill 1988, p. 4

⁵ Hill 1988, p. 3

On the other hand, a zero-sum situation often occurs in the absence of well-defined property rights – be it under a Hobbesian “war of all against all,”⁶ where no generally recognized scheme of property rights exists, or under centralized control. The only alternatives to free markets in principle are the lawless tyranny of strong criminals over their victims and the centrally-planned tyranny of a much stronger group of men, exerting its will over an entire population. Both criminals and government planners can “obtain command over resources without obtaining the consent of the owners of the resources.”⁷ Virtually all real-world societies contain some “mixture” of all three elements – private crime, government control, and free markets – but the free-market element alone creates wealth in every society, while private crime and government control result in zero-sum transfers of wealth from those who created it to those who did not. There is widespread agreement that earning one’s wealth is moral, whereas expropriating it is immoral. Only free markets can ensure that people benefit from the fruits of their own labor. The more prevalent free markets are in a society, the more honest production and commerce will predominate over theft, coercion, wealth redistribution, and victimization.

But free markets go far beyond ensuring that each individual has the right to keep what he has earned. They channel individuals toward providing goods and services that other people want. If only voluntary persuasion is a permitted means of acquiring another person’s association, patronage, or property, then providing services that others value is the primary free-market path to personal gain. Whole Foods founder John Mackey notes that “the most successful businesses put the customer first, ahead of the investors,” but Milton Friedman recognizes that this is truly “the way to put the investors first.”⁸ No dichotomy exists between the well-being of a business’s investors and that of its consumers; what is good for one benefits the other.

A free market also permits individuals to act outside of the realm of commerce, transforming their own property or objects from the state of nature for their own benefit – but trading greatly enhances the range of goods and services an individual can obtain. From the inception of human societies, this recognition led individuals to exchange for mutual benefit. According to Ludwig von Mises, “The fundamental facts that brought about cooperation, society, and civilization and transformed the animal man into a human being are... that work performed under the division of labor is more productive than isolated work and that man’s reason is capable of recognizing this truth.”⁹ By maximizing the scope of voluntary value-trading, free markets also broaden the range of social cooperation and civilized, harmonious interactions among individuals. This is the principal social purpose of free markets, which Milton Friedman describes as “a sophisticated means of enabling people to cooperate in their economic activities without compulsion.”¹⁰

Most people will agree that a society that tolerates various religious and non-religious persuasions is ethically superior to a society that does not. The advent of religious toleration in the West illustrates free markets’ indispensable role in broadening civilized human interactions. The bloody religious wars and political persecutions of the 16th and 17th centuries resulted from attempts by European governments to centrally plan their subjects’ beliefs. “Traditionally, France (along with most other European nations) had attempted to enforce a homogeneous system of values upon its people in the belief that common values were necessary to ensure peace and harmony.”¹¹ But, in the early 18th century, a different pattern began to emerge in England – despite official protections for Anglicanism as the established state religion. The growth of commercial freedom in England triggered an unprecedented degree of religious toleration. Voltaire, in his “Letters Concerning the English Nation,” observed this phenomenon:

Go into the Exchange in London, that place more venerable than many a court, and you will see representatives of all the nations assembled there for the profit of mankind. There the Jew, the Mahometan, and the Christian deal with one another as if they were of the same religion, and reserve the name of infidel for those who go bankrupt.¹²

⁶ “Thomas Hobbes.” Wikipedia, The Free Encyclopedia

⁷ Hill 1988, p. 4

⁸ Mackey, Friedman, and Rodgers 2005

⁹ Mises 1949, p. 144

¹⁰ Mackey, Friedman, and Rodgers 2005

¹¹ McElroy

¹² McElroy

Because they were free to trade with one another and perceived commerce's mutual benefits, individuals of all religions in England were willing to overlook intellectual disagreements and focus on areas where they could gain from associating with one another. This case exemplifies Hill's insight that "participants in a market economy – buyers and sellers – continually look for areas of agreement where they can get along, rather than concentrating unproductively on areas of disagreement."¹³

Religious toleration and unprecedented intellectual freedom emerged in 18th-century England while continental regimes such as the French monarchy continued to pursue both commercial and intellectual homogeneity. Wendy McElroy notes that "A key to the difference between England and France lay in the English system of commerce and in the comparatively high regard in which the English held their merchants. In France, aristocrats and the other elites of society regarded those in commerce, or in trade, with unalloyed contempt."¹⁴ The French economy was characterized by virtually ubiquitous central planning – imposed by Jean-Baptiste Colbert under Louis XIV. Colbertism¹⁵ consisted of manifold economic restrictions – including government-protected monopolies, punitive taxation, enormous tariff barriers to trade, limitations on economic mobility, and minute government oversight of the quantity and quality of output. Under Colbertist central planning, religious toleration's economic benefits did not become obvious – because individuals were prohibited from freely trading with one another anyway. Thus, it was easier for France's government to crack down on religious dissent and forcefully impose Roman Catholicism – culminating in Louis XIV's 1685 Edict of Fontainebleau,¹⁶ which revoked religious toleration for the Huguenot Protestants.

On the other hand, in England, because freedom of commerce made the advantages of inter-religious cooperation obvious to many, Voltaire observed that "the Presbyterian trusts the Anabaptist, and the Church of England man accepts the promise of the Quaker."¹⁷ While France was engulfed in perpetual religious strife and bloodshed, England – with its far greater diversity of faiths – flourished peacefully. Voltaire was among the first to recognize that enforced homogeneity of values undermined a moral social order. He noted, "If there were only one religion in England, there would be danger of tyranny; if there were two, they would cut each other's throats; but there are thirty, and they live happily together in peace."¹⁸ Voltaire's observations regarding England are echoed in James Wilson's view that in free markets, "religion must coexist with human freedom, and this relationship, of necessity, requires religious freedom. With such freedom, many sects will prosper, and none will be the sole state church."¹⁹ A free market entails not only freedom to exchange physical commodities, but also to exchange religious or secular ideas. Commercial and intellectual freedoms are inseparable; where one exists, the other surely follows. In late 18th-century England, religious toleration existed *de jure*, not just *de facto*.

Free markets not only facilitate official religious toleration; they also enable individuals of diverse belief systems to be nice to one another in their private interactions. Being an atheist sufficed to get one imprisoned anywhere in 17th-century Europe; it sufficed to get one burned at the stake during the Middle Ages. Even immediately after legal sanctions against atheism were lifted, non-religious individuals were subjected to widespread social stigma. But today, virtually everywhere in the Western world, an atheist can walk into a store or restaurant and be served with the same courtesy and respect as can a member of one of thousands of religious denominations. In free markets an atheist's money is as good as a Christian's or a Hindu's; prudent businessmen recognize this.

Similarly, any individual's money is good, irrespective of that individual's race, gender, or country of origin. Thus, Wilson observes, free-market capitalism "will find racial discrimination burdensome, thus helping put an end to it... [Bigotry] shuts a firm off from many potential customers and... potential workers, thus lowering sales and raising labor costs."²⁰ Once laws upholding segregation in the American South were repealed, racism's social

¹³ Hill 1988, p. 2

¹⁴ McElroy

¹⁵ "Colbertism." Wikipedia, The Free Encyclopedia

¹⁶ "Edict of Fontainebleau." Wikipedia, The Free Encyclopedia

¹⁷ McElroy

¹⁸ McElroy

¹⁹ Wilson 1999

²⁰ Wilson 1999

incidence plummeted – just as once state-sanctioned religious mandates and prohibitions were removed, social toleration quickly emerged. As free-market commerce encourages individuals to treat one another with kindness and respect, people begin to actually deem one another worthy of such treatment. What may begin as a prudential policy for cultivating more customers and sales becomes ingrained into people’s habits and worldviews; Wilson observes that free-market incentives to treat customers with respect “produce more than mere pretense; they actually change behavior.”²¹ A majority in today’s Western world genuinely believes that race does not affect a person’s character and that atheists or practitioners of a religion different from one’s own are most often good, interesting, valuable people.

Free markets are the foremost institution for human moral improvement. Throughout most of history, people lived in a zero-sum world of widespread plunder, oppression, poverty, and stagnation. Only through commercial freedom and private property rights have there emerged societies where individuals can keep most of what they have created and centralized authorities do not violently impose homogeneous beliefs on the population. Free markets in the West have created an environment where tens of thousands of competing religions and philosophies can thrive and race and ethnicity no longer determine individuals’ socioeconomic standing. Free markets’ tremendous victories over enforced homogeneity enable our comfortable, prosperous, civil everyday lives.

Works Cited

- Bastiat, Frédéric. 1850. *The Law*. Bastiat.org. Available from http://bastiat.org/en/the_law.html. Accessed 24 November 2007.
- “Colbertism.” Wikipedia, the Free Encyclopedia. Available from http://en.wikipedia.org/wiki/Jean-Baptiste_Colbert#Colbertism. Accessed 24 November 2007.
- “Edict of Fontainebleau.” Wikipedia, the Free Encyclopedia. Available from http://en.wikipedia.org/wiki/Edict_of_Fontainebleau. Accessed 24 November 2007.
- Friedman, Mackey, and Rodgers. 2005. “Rethinking the Social Responsibility of Business.” *Reason*, October. Available from <http://www.reason.com/0510/fe.mf.rethinking.shtml>. Accessed 24 November 2007.
- Hill, Peter J. 1988. “Markets and Morality.” Bozeman, MT: Political Economy Research Center. Available from <http://www.perc.org/perc.php?id=820>. Accessed 24 November 2007.
- McElroy, Wendy. “The Origin of Religious Tolerance: Voltaire.” *Zetetics.com*. Available from <http://www.zetetics.com/mac/volt.htm>. Accessed 24 November 2007.
- Mises, Ludwig von. 1949. [2000.] *Human Action: A Treatise on Economics*. Ludwig von Mises Institute. Available from <http://www.mises.org/humanaction.asp>. Accessed 11 February 2007.
- “Thomas Hobbes.” Wikipedia, the Free Encyclopedia. Available from http://en.wikipedia.org/wiki/Edict_of_Fontainebleau. Accessed 24 November 2007.
- Rand, Ayn. 1967. *Capitalism: The Unknown Ideal*. New York: Signet.
- Wilson, James Q. 1999. “The Free Society Requires a Moral Sense, Social Capital.” Interview. *Religion and Liberty*, July/Aug. Available from <http://www.acton.org/publicat/randl/interview.php?id=313>. Accessed 24 November 2007.

²¹ Wilson 1999