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# 1 Discussing the Normative Effects of the Market

This thesis is on the relationship between morality and the market. Many commentators (academic and otherwise) feel that there is some tension in the relationship between morality and economics, whether as an academic discipline or as a representation of the market (economy) that we see in everyday life (see for instance Graafland, 2006; Hausman and McPherson, 1996; van Staveren, 2001). The claim that economics and ethics are strange bedfellows is widespread. Some consider this to be a logical result of the idea that economics is a positive and, above all, a value free science. Others see it as the result of the workings of the market itself. According to this line of reasoning the forces of the market leave little or no room for moral considerations. Morals are presented as having value, namely a negative one in the form of costs and the fiercer the competition in the market the less room there is for moral deliberations. This raises the question of whether the market allows for moral deliberation. If the answer is negative, then any discussion of the relationship between the normative and the market becomes a mere theoretical, albeit interesting exercise. This and the next chapter of this thesis deal with this particular question.

Given the skeptical position on the relationship between markets and ethics, it is of interest that in the past the relationship was not always seen as being characterized by tension. On the contrary; in the eighteenth century many theories emerged wherein the connection between the two was viewed as a positive one. This line of reasoning is of particular importance as it has resurfaced in more recent times in the formulation of (economic) policy. In the case of international labor standards for instance, the argument that any (current) lack of adherence to these standards will automatically be corrected in time provided that the market is allowed to do its work (and thereby generate economic growth) is all too common.

In this chapter, we take a closer look at the different sets of ideas on the relationship between the market and its moral consequences. The main difference between the various views of this relationship can be found in the type of consequence, positive or negative. In addition, a division can be introduced according to whether these results are in fact due to the market or pre-market forces. The aim of this chapter is to get a clear picture of the theories that have emerged on the subject of the relationship between the market and society.

This chapter falls into two parts. The first part (sections one and two) covers the various views that have emerged over time on the societal impact of the market economy. In the second part of the chapter the focus will be on one particular thesis regarding this relationship. This thesis states that the market yields moral benefits for society that go beyond monetary gains. The implication is that the market is best left to its own device in order to generate these morally beneficial outcomes. In the subsequent section, the arguments of this view are reviewed and discussed. The chapter will be concluded with a summary.

## 1.1 Divergent views on the consequences of the market

There are commonly two main interpretations as to the effect of the market on moral standards and on society in general. First, there is the idea that the market has a morally positive or civilizing effect. This effect is in most cases presented as an unintended consequence of the competitive forces of the market. Contrary to this position, we find the argument that the market leads to immoral outcomes. These are of course the two extremes between which numerous other positions are to be found.

In recent times, research on the theories regarding the effects of commerce on a society has turned to a more holistic approach whereby each influences the other. This research emerged not only in economics but also from non-economic disciplines, especially sociology. A key element in these developments is the concept of embeddedness.

With the end of the Cold War and the demise of communism, the market system was (at least for some time) hailed as the only viable manner to organize a society. Concurrently, the debate on the merits of the market (merits that went beyond the more standard merits ascribed to the market system such as the efficient allocation of scarce goods) took a new turn accentuating the benign impact that the market had (or would have) on society at large.

There are roughly two ways in which the market system is thought to enhance the moral fabric of a society of people. The first and oldest route is related to the changes in the way people approach each other due to the incentives created in a market environment. This course is commonly referred to as the *doux-commerce* thesis. The other way in which the market system is

credited by some is that normative improvements in society are the result of economic growth. In the next sections these routes are looked at more closely, dubbed here as the virtue and income argument, respectively. However, before these two routes can be reviewed, an expansion on the various theories that have emerged over time regarding the interaction between morality and the market on a societal level is warranted. This will help in positioning the aforementioned routes in the overall intellectual context.

## 1.2 Main theories on the civilizing effect

In his 1982 article "Rival interpretations of Market Society: Civilizing, Destructive, or Feeble?", Albert Hirschman deals with 'the effects of commerce on the citizen and civil society'. The article makes a distinction between four different interpretations of the nature of these effects. Hirschman groups these divergent views based on the nature of these effects, positive or negative, on the one hand, and the importance of the market versus pre-market values, on the other hand. The focus of the article is not so much placed on whether the aspects of capitalism are right or wrong in an absolute sense but rather on what was thought to go right or wrong. In other words, the article is about the ideas on the likely economic as well as non-economic dynamics of the market-system. Figure 1–1 provides an overview of the four mentioned possible combinations.

The idea that the extent of human well-being or happiness might in part be the result of actively changing the social order became widespread in the eighteenth century. The idea that this order could be perfected arose around the same time as the emergence of the ideas relating to the unintended consequences of human action and decisions (Hirschman, 1982). The perfectibility idea is primarily the offspring of the French Enlightenment, while the theories relating to unintended consequences are principally the result of what is often referred to as the Scottish Enlightenment (See also Hirschman, 1997).

Figure 1–1 Rival interpretations of Market Society

| | **Positive Effects** | **Negative Effects** |
|---|---|---|
| **Dominance of the Market** | Doux-commerce thesis (DC) | Self-destruction thesis (SD) |
| **Influential persistence of Pre-capitalist Forms** | Feudal-blessings thesis (FB) | Feudal-shackles thesis (FS) |

Source: Hirschman (1982)

In the following sections, each of these four interpretations will be clarified. It should be noted–as Hirschman himself does–that the theories discussed below are by no means unified theories but that each is a collection of theories grouped according to shared basic insights.

### 1.2.1 The doux-commerce thesis

The starting point in Hirschman's framework is the so-called *doux-commerce* thesis. The underlying idea of this thesis can be summarized in the words written in 1749 by one of its first advocates, Montesquieu: "for it is almost a general rule, that wherever manners are gentle (*moeurs douces*) there is commerce; and wherever there is commerce, manners are gentle." (Spirit of the Laws by Montesquieu cited in Hirschman, 1982, p. 1464, see also Cheney, 2010).

The relationship between gentle manners and commerce is presented by Montesquieu as mutually reinforcing with the understanding that if there is a hierarchy in causality, the latter precedes the former.[3] How this relation takes shape in practice and which mechanisms create this unintended outcome of commerce is less clear. Hirschman finds some indication in a text on commerce written by Samuel Ricard (*Traité général du commerce*) first published in 1704 in which the idea is put forward that commerce creates interdependence between people. Furthermore, it views commerce as a powerful moralizing agent in that through commerce people learn to be honest, deliberate, prudent, reserved, and acquire manners: "Through commerce, man learns to deliberate, to be honest, to acquire manners, to be prudent and

[3] This hierarchy becomes clear when Montesquieu writes: "Commerce … polishes and softens (*adoucit*) barbaric ways as we can see every day." (Montesquieu cited in Hirschman, 1982, p. 1464).

reserved in both talk and action." (Ricard, 1781, p. 463, translation from Hirschman, 1982, p. 1465).

Later contributors to this issue, such as David Hume (e.g. in his "Of Refinement in the Arts" first published in his 1758 book *Essays, Moral, Political, and Literary*, 1826; see also Boyd, 2008) and Adam Smith also mention virtues (e.g. industriousness, frugality, punctuality, and probity) that were expected to be enhanced or introduced by commerce and its complement manufacturing; progress through commerce (and the associated increase in wealth), division of labor and technological advancement would as a by-product generate a more "polished" human type.

This stands in dark contrast with the idea that the market eroded trust or trustworthiness. On the contrary, this is one of the virtues that commentators like Adam Smith thought to be actually enforced and strengthened by commerce because it is in line with the self-interest of the agents as Adam Smith explained in his *Lectures on Jurisprudence* (Adam Smith, 1766, 1978, pp. 538-539; cited in part in Maitland, 1997).

Writing on the normative impact of the market, Maitland (1997) maintains that trust, despite occasional well-publicized violations of the norm, is pervasive in our business culture. He subscribes to the view of Adam Smith that trustworthiness is a virtue closely linked with commerce (here Maitland uses the term "bourgeois virtue", taken from the homonymous titled paper by McCloskey published in 1994) rather than a legacy from the premarket era and emphasizes the following from Adam Smith's ideas: "Wherever commerce is introduced in any country probity and punctuality always accompany it. . . . When the greater part of people are merchants they always bring probity and punctuality into fashion, and these are the principal virtues of commercial nations."[4] (Adam Smith, 1776, 1978, pp. 538-539, cited in Maitland, 1997, p. 22; see also Reisman, 1976, p. 98 and Stigler, 1981).

This idea has found fertile ground among many economists and was subsequently used in debates on the benefits of markets. In his Tanner lecture entitled "Economics or Ethics?" George Stigler (also citing the passage from Smith quoted above) remarks that "I do not know

[4] Both these quotes are taken from Smith's *Lectures on Jurisprudence* (Smith, Meek, Raphael, and Stein, 1978).

whether in actual fact the participants in economic transactions behave more honestly than those in diplomatic exchanges or in primitive barter, and I am reasonably confident that Marshall and Smith also did not know when they wrote these passages, whatever they have learned since. But I do believe that they, and most modern economists, accept the substance of their [Smith' and Marshall's] position on commercial morality." (Stigler, 1981, p. 173). One could argue that the years since this lecture have shown Stigler's observation to be correct in that the inherent morally beneficial nature of the market system has become an article of faith among the members of the economic profession especially for those active in the mainstream.

One more remark on the doux-commerce thesis is warranted at this stage. Montesquieu—one of the earlier champions of this theory—described the blessings of the market vis-à-vis a system controlled by a monarch. Although later (more contemporary) supporters of the doux-commerce thesis invoke the writings of Montesquieu, they present the case in favor of the market regardless of the original state. We shall return to this in the text below (see §1.4.2) but for now it should be noted that the doux-commerce thesis emerged during a transition period and thus covers the transition from a pre-capitalist society to one characterized by the free market, i.e. capitalist society. And the 'improvements' in manners and mentalities should in principle also be seen in that light: commerce cleans up the pre-capitalist legacy.

### 1.2.2 The self-destruction thesis

The nineteenth century saw the rise of the opposite of the doux-commerce thesis, in which the market system was seen to be harboring processes, tendencies, and forces that will ultimately lead to its demise or at the very least weaken the foundations of society. This thesis, dubbed the self-destruction thesis, sees the market depleting or even destroying the moral fabric of society. Although Marx and Engels are commonly credited with advancing this thesis, they were by no means the only ones, let alone the first. In the seventeenth century, the view that the market system trumps all traditional and "higher" values was already expressed as a conservative reaction to the emergence of the market society. However, it was only later that the idea was added that the market system "might corrode, not only traditional society and its moral values, but even those essential to its own success and survival." (Hirschman, 1982, p. 1468).

The industrial revolution, so goes the argument, did away with the idea of doux-commerce. As competitive pressures were introduced, and manufacturing was extended, the laborers involved became obsolete and were displaced. Simultaneously the passion for riches led to the creation of disenfranchised groups that were anything but gentle or soft. The emergence of industry and commerce was widely seen as contributing to the downfall and breakdown of traditional communities and the loosening of social ties.

Hirschman describes the 'simplest model' for the self-destruction of market society as the *dolce vita* scenario. Here, the emergence of capitalism is thought to be accompanied by thrift and its subsequent accumulation of capital. At some point these attitudes will give way, in part due to the increased wealth, to more demands for the good life ("instant, rather than delayed, gratification", Hirschman, 1982, p. 1468) and the enervation of the spirit of frugality.

Hirschman refers to Joseph Schumpeter's *Capitalism, Socialism, and Democracy* (1976, originally published in 1942) as containing one of the best known examples of the self-destruction thesis. Dealing with the question of whether capitalism can survive Schumpeter comes up with a rather negative answer, predicting its downfall. This would not be the result of a backlash from the masses but more the logical outcome of the mindset created by the market system: "… capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own; the bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values." (Schumpeter, 1976, p. 143 cited in Hirschman, 1982)

The argument seems to exclude the idea that apart from having tendencies geared towards self-destruction the market system might also possess forces steering it toward self-preservation. The first enactments of factory legislation might be viewed as examples hereof. Hirschman adds that Schumpeter's argument might become more persuasive if it is posed that capitalism corrodes its own moral foundations *inadvertently*. This idea was developed by the (first) Frankfurter School, e.g. by Max Horkheimer. (Hirschman, 1982, p. 1469) Later contributions to the idea of inherent self-destruction (aside from much Marxist orientated research), include the *Social Limits to Growth* by Fred Hirsch (1976, 1995). This work deals with the idea of the 'depleting moral legacy' of capitalism. Among the arguments put forward that underpin this thesis are: the emphasis on self-interest makes it difficult to secure collective

goods, macro management of the economy should be based on the common good (i.e. general interest) rather than the self-interest of those responsible for its execution, the individualistic and rationalistic base of the market undermine social virtues such as truth and trust that are needed for the functioning of the economy. According to Fred Hirsch there are several 'social virtues' that play a central role in the functioning of an individualistic, contractual economy: truth, trust, acceptance, restraint, and obligation. The question now becomes how these virtues, especially the level of trust, assist the workings of the market. Because defection can create considerable profits, at least in the short run, there is the dilemma that being virtuous creates a competitive disadvantage. From this, one might infer that the only reason that the market is still able to function is because of its older pre-capitalist legacies from earlier moral and religious traditions (Maitland, 1997, p. 20). This is one of the central claims of the fourth interpretation of the effects of the market on society, what Hirschman calls the feudal blessings thesis. We return to this thesis in the text below but first the focus will be on the third thesis identified by Hirschman, the one whereby pre-capitalist traditions hold back the full potential of market forces and, therefore, its blessings. This is the topic of the next section.

### 1.2.3 The Feudal-shackles thesis

One of the ways the doux-commerce thesis re-emerged in the nineteenth and twentieth century is as a part of a critical view of capitalist development. This critical view was not founded on the ideas already discussed under the heading of the self-destruction thesis. The criticism against capitalism was not that it was eroding social norms and values but that it was not doing so enough (!), i.e. the forces of the market were too weak to neutralize the (negative) influences of pre-capitalist society. The penetration of capitalism in a number of societies was considered to be too timid and half-hearted to bring about its civilizing effect. Societies are held captive by pre-capitalist notions or institutions depicted as 'feudal shackles' that hold back the 'bourgeois revolution'.

Interestingly, both of the major critiques of the doux-commerce thesis now discussed, the self-destruction thesis as well as feudal-shackles thesis, can be traced to the work of Karl Marx. His writings on the economic situation in Germany led him to conclude that the country was tied up in feudal cobwebs that were not swept away by the emergence of the market, which consequently did not become the dominant force for societal arrangements.

The effect of the market was deemed too weak to fulfill the progressive role it was supposed to play in bringing about change. The idea of the inability of market forces to fulfill the promise of doux-commerce received renewed attention in the twentieth century as a possible explanation for the poor economic record of Latin America. (Hirschman, 1982, p. 1477)

### 1.2.4 The Feudal blessings thesis

It was already noted above that trust plays a key role in the workings of the market yet simultaneously it is under threat from these very same workings. Therefore, the question that is raised is why trust would remain in a society wherein the pressure of the market is at work. One of the answers put forward in the past is that the continuous presence of trust is found in the pre-capitalist legacy. This stands in stark contrast with the previous account where the pre-capitalist legacy was thought to be withholding the realization of the benefits the market society would bring about.

In the writings of Alexis de Tocqueville one can find praise for the way society in the United States of America had developed and more importantly one can find the idea that this was the result of the absence of an *ancien régime*. The United States was taken as an example of how the absence of a feudal past resulted in true equality and opportunity for all its citizens. Therefore, its development can and was seen as a vindication of the shackles thesis discussed in the previous section. However, in some later writings this view was questioned and in effect reversed the analysis given by Tocqueville and others. Hirschman uses the work of Louis Hartz (The Liberal Tradition in America, 1991) as an example of the theory of how the absence of a feudal past is in fact the source of many shortcomings that have befallen the country. Hartz states that the US suffers from a lack of social and ideological diversity that, according to him, are the prime constituents for genuine liberty. Hirschman adds to this the idea that "the absence of an authentic conservative tradition is responsible for the often noted weakness of socialist movements." (Hirschman, 1982, p. 1479). The lack of diversity is seen as stimulating the tendencies towards the tyranny of the majority. Harz sees the similarities between welfare state policies in other countries and the New Deal in the US but the latter failed to achieve full legitimacy in the sense of becoming part of a new economic order and was (and still is) seen as a deviation from the liberal ideal as perceived in the US. In short, in this thesis, having a feudal background is a favorable factor for subsequent democratic-capitalist development.

The fact that the first manifestations of much of what is now deemed basic social legislation (i.e. the welfare state) emerged in Germany in the nineteenth century, which if we recall the words of Marx was far from a capitalist society at the time, might be considered to support this line of reasoning.[5] Examples of this type of social legislation include: the introduction of social pensions, unemployment insurance as well as health insurance. The overall goal of these legislative innovations was to reduce the degree of uncertainty in the life of workers, or in the words of the main architect of these legislative changes, Otto von Bismarck: "Indessen für den Arbeiter ist das immer eine Tatsache dass der Armut und der Armenpflege in einer großen Stadt zu verfallen gleichbedeutend ist mit Elend, und diese Unsicherheit macht ihn feindlich und misstrauisch gegen die Gesellschaft." (von Bismarck, 1884, p. 165). At the same time, various German companies were also introducing new policies geared toward the improvement of the lives of their workers (and their families), for instance in the form of company lunches but also pensions (e.g. in the case of Siemens as early as 1872, see Kastl and Moore, 2009) and the provision of housing (Honhart, 1990).

### 1.2.5 Hirschman's framework revisited: recent contributions

The topic of Hirschman's inquiry has not received as much attention in the field of economics compared to its impact on the discipline of sociology. Fourcade and Healy (2007) aim to go beyond what they see as the more straightforward approach used by Hirschman depicted in Figure 1–1. They see a body of literature that rejects the division made by Hirschman and that is "<…> united by a view of markets as intensely moralized, and moralizing, entities." (2007, p. 286) Fourcade and Healy specifically target the propositions of the doux-commerce thesis which they see as having "<…> become the liberal dream of market society, with market exchange variously seen as a promoter individual virtue and interpersonal cooperation, the bulwark of personal liberty and political freedom, and the mechanism by which human creativity can be unleashed and its products made available to society at large." To this they add the observation that the "story for most economists usually ends there, with minor adjustments—but not for critics, who relentlessly warn that the dream can turn nightmarish on all three counts." (2007, p. 288).

[5] There were of course many other initiatives geared towards social legislation in other countries during that time, e.g. the Fabian Society (founded in 1884) in the UK, but these were on a whole private initiatives rather than government backed programs.

They expand on Hirschman's framework by widening the net of contributions taken into account that convey theories on the effect of the market on society. Veblen for instance stated that the drive for "conspicuous consumption" has a profoundly degrading effect on individual judgment and conduct. Indeed Veblen's insight that people do not consume to satisfy their own hedonistic wants, but to impress others by showing off their wealth, has in some sense been vindicated by the happiness research that found that it is when wealth increases vis-à-vis others that it generates additional happiness (see e.g. Lane, 2000; Layard, 2005).

The overall social critique of affluence, to which Veblen contributed, has two underlying mechanisms: the competitive instinct (at the individual level) and secondly (on a macro-level) the acknowledgement that our wants and tastes are not simply internally driven but are also created by the market. This last mechanism stands in contrast with the assumption in mainstream economics that desires and wants are treated not as endogenous but as exogenous to market processes (see e.g. Davis, 2003). These claims raise important questions regarding the (nature of the) relationship between wealth (or affluence), choice, and happiness especially given the fact that in the past there was an implicit assumption that there was a clear positive (or even casual) relation between these three.

Polanyi (1944) emphasized the dehumanizing effect that modern capitalism has on social relations and an individual's personality. Everything becomes commodified and so do human beings who stop being seen as ends in themselves. The starting point of this 'great transformation' according to Polanyi was the indictment and subsequent reform of the Old Poor Law relief system in the UK. The premise for this reform was the thesis that relief discouraged "demographic and moral restraint among the poor." (Fourcade and Healy, 2007, p. 293). The interesting aspect of this is that it is in essence a form of moral reasoning, which turns the supposed causality between the market and morality under the doux-commerce thesis on its head in that moral deliberation leads to the widening and deepening of the market. Polanyi saw in the reforms the institutionalization of the concept of a self-regulating labor market and hence the transformation of labor into a commodity and the subsequent dismissal of human solidarity as a legitimate basis for social order. (See also Hirschman, 1991; Polanyi, 1944; Thompson, 1980).

The middle ground between the two 'extreme' positions on the influence of the market, doux-commerce and self destruction thesis, was taken up in Hirschman's overview by the feudal blessings and feudal shackles thesis. In both of these cases, the effect of the market is deemed too feeble to negate pre-market societal arrangements, which alternatively are considered to be beneficial or detrimental to society. The major theme here is that markets are embedded in society. Fourcade and Healy identify three main variants of this thesis in contemporary scholarship: the realist view ("capitalism thrives in certain cultures, whereas other cultures remain stuck"), an approach based on a voluntarist understanding of the world (market system supporting conditions can be implemented via political intervention), and thirdly as a differentiated perspective (there is not one universal path that capitalism will always follow but it will develop differently in different places).

One of the most influential contributions to the *realistic view* in recent times is the work of Acemoglu and Robinson published in 2006 titled *Economic origins of dictatorship and democracy*. In their study, the mortality rates in colonial times are used as an instrument for the development of institutions mitigating the effects of reversed causality between economic growth and institutions. Their study indicates the long-lasting effects of different types of colonial rule on the quality of present day economic and political governance.

In what Fourcade and Healy deem the *voluntaristic view*, the major point is that institutions can be conducive or disadvantageous to economic development, e.g. strong property rights or certain models of corporate governance. Furthermore, it is thought that these institutions can be created or brought into being by policymakers.

The *differentiated view* posits that there are various pathways towards growth. The choice of the growth path may depend on the different moral perceptions about how to maintain social order; in other words, there is more than one way to organize an effective, productive economy. In line with this thesis, it is said that policy options are typically presented "as economically inevitable trade-offs <but> are in fact more similar to political choices that might or might not be pursued without strong effects on economic performance." (Fourcade and Healy, 2007, p. 299).

After reviewing various contributions that are deemed to be in line with Hirschman's framework, Fourcade and Healy point towards a relatively new body of literature mostly drawn from sociology that is geared towards the idea that markets are "explicitly moral projects, saturated with normativity." (2007, pp. 299-300). This, they see as going beyond the aforementioned framework where the causality primarily goes (for good or bad) from the market towards morality. The focus thus becomes one area where this idea has been explored, which is the research conducted on the role the market plays in creating moral boundaries between individuals or societies. With Weber's 'Protestant Ethic' as a point of departure they conclude that in modern societies money plays a pivotal role in the evaluation of the moral worth of individuals. As an example, they point towards the way different forms of payments are made to inhibit some indication of the type of work which was done but also conveys some information regarding the status of the work done. Citing the work of Zelizer (1983, 1994) on the history of life insurance and the elimination of child labor, the point is made that markets and their moral boundaries shift and recombine in practice. The first example, the spread of the insurance market, is an example of the spread of commodification, whereas the second is an example of how children were removed from the market and became "priceless objects of sentiment." (Fourcade and Healy, 2007, p. 300).

This approach is regarded as 'Durkheimian' in that morality is not understood or approached as a universal ethical standard but as what is deemed appropriate (good/bad) by a group. This is, in essence, approaching morality as a sociological phenomenon, which as Fourcade and Healy note, does not mean there is no discussion of its definition. However, by separating market and morality as distinct albeit closely connected spheres, the door is opened to talk about the market in apparently neutral terms, for instance: "The logic of efficiency seems to depoliticize social relations, for example, by masking the political conflicts inherent in many kinds of economic policy, and this apparent objectivity helps reinforce its legitimacy." (2007, p. 302).

Economists are more often consulted on the formation of institutions compared to others and hence their influence on actual policies is greater namely "in providing recipes for creating a framework for national development, corporate management, or organizational reform."(p. 302). This influence creates (according to Fourcade and Healy) the need to study if and how economics makes markets work based on economic thinking; in other words whether economics is shaping markets rather than studying and describing markets. They note that, in

this world, such is increasingly the subject of economics. Thinking actors "are thus progressively turned into calculative agencies. *Homo economicus* <is made flesh> by economic technologies; economic models, formulated through a process of abstraction and disentanglement from reality, thus get entangled again."(Fourcade and Healy, 2007, p. 302), This issue has occupied many commentators over the years, and not only sociologists, but also philosophers and economists themselves. (See e.g. Davis, 2003; and 2006).

In the final section of their article, Fourcade and Healy cover the current debates in relation to the market that saw the emergence of notions such as "transparency", "corruption", but also "fairness". The latter, of course, being used as an adjective in connection with a plethora of issues, such as fair wages, fair prices, or fair trade. They see in this a reaffirmation that the conditions under which economic behavior is deemed immoral or moral are and always will be social. One of the examples they provide is the changing attitude of people toward coffee-growing practices.[6]

In their analysis, Fourcade and Healy move beyond Hirschman's framework. They rightly call attention to the fact that economics and morality inhabit the same social spheres, and hence cannot be seen in isolation.[7] However, their analysis makes both so integrated that they become one and the same. This is unfortunate as well as unnecessary since, although they point towards important issues, their analysis makes it difficult to go beyond providing a description and move towards a framework that can be used to decide where to go. In the next chapter we shall take a closer look at the idea of the embedded market whereby the market should be approached in the context of the society (or moral ecology) where it is manifested. The next section focuses on some of the modern variants of the doux-commerce thesis.

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[6] "Similarly, few people cared about coffee-growing practices just a few decades ago. Now these practices are classified as either conventional or ethical. The latter are the target of strict standards of certification and even claim a separate market. Consumers, business actors, and policy makers have at their disposal elaborate technologies and theories to define the moral criteria against which prices and wages are compared, the degree of competitiveness in a particular industry is evaluated, and the extent of corruption in a nation is measured." (Fourcade and Healy, 2007, p. 304).

[7] "<..> much of the rationalization and moralization that takes place is dominated by economists and often relies on the elevation of purely economic criteria such as efficiency or profit making to the status of a moral rule." (Fourcade and Healy, 2007, p. 304).

## 1.3 The doux-commerce thesis in contemporary times

The focus in this section is placed on those accounts that assert that the market (economy) generates beneficial results for a society overall, and not in the least in the normative dimension; in short, the more recent variants of the doux-commerce thesis. There are two main reasons for taking a closer look at this particular view of the moral impact of the market. First of all, this thesis is one of the four presented by Hirschman where the possibility of falsification is arguably the most present. The idea that commerce creates a morally better society can—although arguably not very easily—be tested. In comparison, the statement that the market has not resulted in the downfall of a society can be countered by a just-you-wait-response, i.e. it hasn't happened yet but it will. Therefore, the main difference here is the fact that commerce has grown significantly and, accordingly, 'manners' should be less barbarous. A second reason to review the doux-commerce thesis more closely has to do with the implicit and at times explicit position it has occupied in policymaking; the idea that commerce—or economic growth will (almost) automatically resolve any societal moral issues is widespread.

In recent times, the idea that the market leads to morally optimal outcomes has been reviewed and discussed or even championed in various publications. Some of these publications emerged from the globalization debate—see for instance Bhagwati (2002b) and Wolf (2004). Others deal specifically with this issue. Examples hereof are Benjamin Friedman's 2005 book *The Moral Consequences of Economic Growth* and *The Bourgeois Virtues* by Deirdre McCloskey published in 2006. The latter is arguably one of the more outspoken examples to have emerged in recent times.

Before turning to these contributions it might be helpful to have some idea as to what the market is thought to introduce or facilitate in the area of morals. In his book *The Moral Ecology of Markets* (2006), Finn distinguishes ten major claims made on behalf of markets and self-interest. Table 1–1 provides an overview of these claims. Note that this list is not exhaustive and does not constitute any logical framework; it is possible to ascribe to one or several of these warrants for the market without ascribing to them all.

Table 1–1 Moral warrants for Self-interest and Markets

| | |
|---|---|
| 1. | Markets encourage invention and technological change |
| 2. | Markets create wealth for all |
| 3. | Markets give people what they deserve |
| 4. | Markets are just |
| 5. | Markets reduce discrimination and bigotry |
| 6. | Markets encourage self-interest rightly understood |
| 7. | Markets encourage individual virtues |
| 8. | Markets encourage political freedom and democracy |
| 9. | Markets should not be blamed for the failures of culture |
| 10. | An invisible hand leads self-interest to serve all |

Source: Finn (2006, p. 41)

What is striking about this list is that the claims include causal claims (markets will generate a particular state or outcome), identity statements (e.g. markets are just) and also warrants regarding processes such as statements regarding the way the market is to be beneficial. This diversity also gives a first indication of the breath of arguments that typically emerge when morality in relation with the market is discussed. The work discussed in the next section invokes most if not all of these warrants.

### 1.3.1 The Bourgeois Virtues

In *The Bourgeois Virtues* Deirdre McCloskey (2006) states that modern capitalism does not need a counterforce in order to be good in a normative sense but can actually be virtuous in itself.[8] Following Winston Churchill's famous defense for democracy via negative selection, McCloskey writes that capitalism is better than any other available alternative.[9] This positive assessment of capitalism is based on two main arguments. Firstly, capitalism, according to McCloskey, nourishes virtues. The underlying idea is similar to the doux-commerce thesis discussed above: "The more common claim is that virtues support the market. Yes I agree. Other economists have started to admit so. It's been hard, because it goes against our professional impulse to reduce everything, simply everything, to prudence without other

[8] McCloskey stresses that the market and what she calls bourgeois life are not always bad and are in fact on the whole even positive for the human spirit.

[9] To be sure, McCloskey states clearly at the start of her expose that she has no precise definition of capitalism but that it should emerge from factual inquiry: "We can't do with philosophical definition a job that needs to be done with factual inquiry." (McCloskey, 2006, p. 3) Yet on page 14 she notes "I mean by 'capitalism' merely private property and free labor without central planning, regulated by the rule of law and by an ethical consensus." Given the project, this last addition can be considered to be somewhat self referential.

virtues. I say that the market supports the virtues." (McCloskey, 2006, p. 4). We shall return to this argument, which we can call the virtue argument, in the next section.

The second main argument that McCloskey uses in her "apology" for capitalism is that "modern capitalism makes us richer." Although the world's population increased by a factor of six between 1800 and 2000, the volume of production (goods and services) increased by a factor of approximately eight and half (p. 15/16). To this, she adds the assertion that quality of life has increased to no end in comparison to earlier generations; there are more goods and people live longer and healthier lives. McCloskey also provides several examples of issues that are still of concern, such as poverty. However, here too she sees a lot of improvement, which is the result of capitalism that makes the current situation better than the one in yesteryears.[10] This income argument will also be reviewed in the text below, but first the focus will be on the virtues argument.

### 1.3.2 The Virtues – argument

McCloskey sees the market economy as having a beneficial moral impact through the income effect as well as by way of fathering virtuous behavior. In this section, we focus on the latter argument. In her book she addresses in her own way what is sometimes called the 'Adam Smith problem'.[11] This refers to the apparent paradox that comes to light when comparing the underlying theories of the two main books written by Adam Smith: *The Theory of Moral Sentiments* (1759) and *The Wealth of Nations* (1776). In the second book, Smith describes how by pursuing their self interest people can create wealth. In the former, he described how we should concern ourselves with the wellbeing of others as well as how we are motivated to be just; this is not through our self-interest alone but through our capacity for sympathy. In addition, this drive towards feeling concern for others is influenced by us hoping to be well thought of by ourselves as well as others. Therefore, at the core of the problem is the question of whether Smith's work contains two irreconcilable anthropological views; an egoistic and an altruistic view.[12]

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[10] "I need to persuade you that capitalism and bourgeois virtues have been greater forces eliminating poverty than any labor union or welfare program or central plan. <..> Some poor people now work long hours and can't make it. No one should deny that. But it was worse in 1900, and worse yet in 1800." (McCloskey, 2006, p. 27).

[11] For the problem is also known as the 'Adam Smith Paradox' (see e.g. Skousen and Taylor, 1997).

[12] See Göçmen (2007) for an in-depth discussion of this issue

McCloskey writes that real market economies cannot function properly if people are greedy and short-sighted in their pursuit of their own interests. Therefore, this is where the notion of 'self-interest well understood' makes its debut. Prudence ensures that the self-interest pursued will not result in adverse consequences. However, this is not the complete story as McCloskey adds that capitalism nourishes not only prudence but also other virtues.[13]

In his 1997 article, Maitland reviews the question of what capitalism's (or "doing business") effects are on people and specifically whether it makes people more or less virtuous. Economic arrangements, he argues, not only produce goods and services but also certain types of people. According to the "pessimists" (those who think the more completely a society is dominated by market relations, the weaker its capacity is to foster the virtues) one of the functions of the virtues is to serve as a counterweight to the disintegrating effects of the market.

The virtues that Maitland discusses in this respect include self-control, sympathy and fairness. Self-control in his view does not constitute a trade-off between the public good or public interest and self interest. Maitland does however acknowledge that there is a trade-off from the individual's point of view and that it is a trade-off between short-term and long-term self-interest. The virtue of sympathy is viewed as an almost necessary ingredient as it enables the anticipation of needs and, therefore, helps to supply the right goods, and hence contributes to economic success. Maitland further cites Adam Smith on how taking into consideration the passions of others might be in our self-interest. This leads him to conclude that "while sympathy may not be *reducible* to self-interest or selfishness, it is likely that participation in the market develops and reinforces the capacity to share the feelings or emotions of others." (Maitland, 1997, p. 22). Even when personal feelings are left outside of the equation, the repeated contacts between people in the marketplace are likely to generate some level of minimal politeness. Here the threat of defection is again introduced as an enabling force by the market to promote civility. The defection, however, is now placed in the hands of those people who have the option to take their business elsewhere. When it comes down to fairness

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[13] In her analysis, she identifies seven of these virtues. Four of these are the classical (pagan) virtues: courage, temperance, justice, and prudence. These four are supplemented with three Christian virtues: faith, hope, and love. For other (and some earlier) examples of invoking the language of virtues when talking about the impact of the market system please see Nussbaum and Sen's *Quality of Life* (1993) and *The Values of Economics* by van Staveren (2001).

Maitland points out that having a reputation for fairness is conducive to doing business ("it is likely to create business opportunities") and its subsequent commercial success. Cases derived from day-to-day business practices, especially in relation to dispute settlements provide examples of fairness, and play an important part, whereby the give-and-take attitude that comes with it is considered to be of great value in business.

In short, Maitland sees two ways in which virtues can be a source of economic success, namely through their assistance in creating long-term exchange relationships and through creating future business opportunities. Conversely, he states that the market strengthens its own foundations and reproduces a moral culture that is functional to its own needs. A counterargument against this line of reasoning is that although the market may encourage the formation of ties and commitments, these relationships are purely instrumental and calculating.[14] Maitland counters this view by asserting that such a strategy of narrow-minded calculus is self-defeating. He contends that it "rests on the fallacy that the potential gain from fleeting, discrete, instrumental exchanges is greater than that from durable, "moralized" relations infused with sentiment and sympathy." Lasting relations are in his view economically more attractive and hence superior.

It is interesting that when Maitland writes about fairness he states that what is good for business is having a *reputation* for fairness and not fairness per se. This is closely related to one of the objections against the line of reasoning often found when the moral forces of the market are discussed. It would seem that many arguments in support of affirming the positive side of the market's influence are in fact an advertisement for hiring a good public relations company: it is not so much a matter of actually having these virtues but more a matter of others seeing these in you.

[14] See for instance the writings of Émile Durkheim (1893, p. 222, cited in Hirschman, 1982, p. 1471)

Another aspect of the argument is that for the positive force of the market to come about there should be repeated interactions or transactions. In an 'imperfect market', setting reputations of the participants matter. Maitland thinks that an economic exchange can often be done more efficiently (and presumably less costly) when the parties concerned make some form of investment, that is of no use outside of this relation and is, therefore, denoted as a 'specialized investment'.[15]

There are various ways in which the market is thought to be nurturing morally sound behavior. A dominant feature in this line of reasoning is the idea of 'self-interest well understood'. Because behaving in a moral manner is thought to yield benefits in the marketplace, the market in effect supports the dissemination and promotion of virtues. On close inspection, the necessity of this relationship may not be as robust as it is often presented to be and should in fact be considered as an article of faith rather than fact.

### 1.3.3 The Income – argument

The second main argument that McCloskey deploys to argue for the beneficial impact of the market economy is related to income. Its basis is formed by the assertion that increased wealth has enabled us to lead better and longer lives. McCloskey makes much of the fact that the increase in wealth (or the amount of goods and services produced and consumed) has considerably superseded the increase in population over the last two hundred years. Overall, the quality of life has increased. This improvement, so McCloskey claims, has not only manifested itself in the material side: modern economic growth—the result of the market system—has made it possible for people to lead longer, healthier, and more meaningful lives. The increased wealth has enabled people to spend time on leisure and education. In addition, the market system has led to the urbanization of the world population and thus contributed to making the world more civilized in the literal and broader sense of the word: "Participation in capitalist markets and bourgeois virtues has civilized the world. It has 'civilized' the world in more than one of the word's root senses, that is, making it 'citified', from the mere increase in a rich population. It has too <…> made it courteous, that is, 'civil.' <…> Richer and more

[15] "For example, where an employee has acquired specialized skills or knowledge, employee and employer have a mutual interest in keeping the employment relation going." (Maitland, 1997, p. 23)

urban people <…> are less materialistic, less violent, less superficial than poor and rural people."(McCloskey, 2006, p. 26).

In short, apart from the advances in production, consumption, and health, the increased material well-being has also enabled people to be more concerned with morality in general. This assertion can also be found in other publications. The main thesis of Benjamin Friedman in his book *The Moral Consequences of Economic Growth* is that economic growth can create positive moral outcomes and that further economic growth needs those outcomes. The usage of the word "can" in the previous sentence is not by accident. The contingency of the book's central claim becomes clear when the formulation of the first part of the thesis is reviewed: "Economic growth—meaning a rising standard of living for the clear majority of citizens—more often than not fosters greater opportunity, tolerance of diversity, social mobility, commitment to fairness, and dedication to democracy."(B. M. Friedman, 2005, p. 4).

The reverse according to Friedman also holds in that the stagnation of the economy is a threat to the moral character of a country. Friedman discerns between virtuous circles (economic growth, socio-political progress and liberty reinforce each other) and vicious circles (stagnation breeds violence and dictatorship). In addition to this, Friedman notes that the relationship between economic growth and democracy is a two-way street in that they both affect each other for the better and worse.

Two things are striking in the way Friedman formulates the hypothesis. First, there is the addition of "more often than not" in the phrasing, hence opting for a non-falsifiable statement. Secondly, and more important in the present discussion, he specifies that economic growth must have a strong distributional component. Prosperity needs to be shared, as an unequal distribution of prosperity does not generate good moral consequences.[16]

Benjamin Friedman is in effect saying that when people are confident that they will be better off, they will be more receptive to the needs of others. This in effect turns the Rawlsian 'veil of ignorance' (Rawls, 1971) on its head in that people will seek justice only after they know

[16] One review of the Friedman's book noted that Friedman is less clear about the extent to which living standards must improve (or indeed the supposed duration hereof) in order to make its moral consequences materialize. In his empirical sections he sometimes utilizes GDP as a measure for growth and sometimes per capita income (Seligman, 2005).

what their position is and provided theirs is a good one.[17] Friedman sees in his analysis another important implication, namely: "The hypothesis that economic growth (rather than the level of income) nurtures these positive developments has a number of important implications, among them that the market mechanism, left unimpeded, will systematically under-provide economic growth so that there is a resulting role for public policy to stimulate growth beyond the market-determined rate of increase." (see Friedman's entry in Blaug and Vane, 2003, pp. 270-271).

## 1.4 Evaluating the arguments

This section evaluates the arguments put forward by those publications about the positive relationship between society and the market. Keeping in line with the previous section, the main focus will be on the account provided by McCloskey. This section is not about questioning the validity of all her arguments. The focus is rather on the question of whether the way the thesis on the positive relationship between the market and society has been argued is sound. I contend that there are three issues relating to the arguments that warrant a review of the idea that the market will generate morally beneficial results by and of itself. The three issues that will be discussed below are: the moral counterfactual, historicism, and the discounting of future wellbeing.

### 1.4.1 Invoking the moral counterfactual

The problem of the counterfactual is one of the biggest methodological challenges facing empirical research in the social sciences including economics. It denotes the fact that we can only perceive that what has occurred. We are unable to reproduce the exact circumstances to see what would have happened if certain policy measures or other factors were altered.

When economists discuss the merits of the market it is not uncommon to find the argument that the market system has proven itself to be superior vis-à-vis any other system that has been *tried and tested,* in other words with existing proven alternatives. In his book *Globalization and Why it Works*, Martin Wolf states that critics are inclined to point out the evils of the free market but not cite any realistic alternative: "Those who condemn the immorality of liberal

[17] For more on Rawls and the veil of ignorance see §4.1.3 of this thesis

capitalism do so in comparison with a society of saints that has never existed—and never will." (2004, p. 57). Similarly, when pressed to state his case regarding the market system (or free enterprise system) in front of a live television audience Milton Friedman replied: '<..> you have got to compare something with something. Will you tell me the alternative which has improved the lot of the ordinary people?"(M. Friedman, 1980).

A third and final example is to be found in Deirdre's McCloskey's book *The Bourgeois Virtues*, where she writes: "If capitalism is to be blamed for systemic evils, then it also is to be given credit for systemic goods, compared not with an imaginary ideal but with actually existing alternatives." (2006, p. 29).

These are all examples of the 'is-should' type of argument; that what is, is what should be (otherwise, it wouldn't be what it is). It is strongly grounded in an empirical standpoint in that it dismisses the counterfactual as irrelevant. In this sense, it is beyond the 'is-should' argument but more like the tyranny of what is. This argument was famously refuted by Immanuel Kant (1793b) in his article "Über den Gemeinspruch: Das mag in der Theorie richtig sein, taugt aber nicht für die Praxis". In responding to criticism leveled against his writings on moral philosophy, Kant responded that from the way things are we cannot deduce how they should be. This opens up the debate in a holistic manner for when that *which is*, is combined with that *which should be*, we have a different set of issues that need to be resolved.

### 1.4.2 Historicism

Historicism is the doctrine that states that any knowledge of past thought is only really understandable in that particular time; it has a historical character that rules out an ahistorical angle. Therefore, based on this doctrine one would for instance argue that although we may be able to read the writings of Smith or of Montesquieu this does not mean that we can be sure of their precise meaning. In order to fully grasp the ideas, one needs the historical context in which these ideas were developed. This approach can be contrasted with a reductionist approach whereby knowledge is based on fundamentals that are not sensitive to context or history.

Regardless of the question of whether or not one is able to fully comprehend the writings of yesteryears in the case at hand, there is one aspect that is associated with the problem of interpretation that needs to be highlighted. One of the problems with applying the original

ideas of the doux-commerce thesis is that they pre-dominantly cover the transition from a pre-market society to a market society.[18] The only possible modern-day situation that could come close to being considered equivalent is the recent transition of the former communist countries from centrally led economies to market based societies. And if we were to accept this as a legitimate example we are faced with the fact that this transition was wrought with human suffering (see e.g. Ellman, 1997; Stuckler, King, and McKee, 2009) and can, therefore, hardly be said to be an argument in favor of the doux-commerce thesis.

Leaving the aspect of transition aside, there is another issue that faces the modern incarnations of the doux-commerce thesis compared to the earlier contributions related to the nature of the causal relationship. The earlier contributions to the doux-commerce thesis were mostly concerned with the link between the market system and morals and *not* between economic growth and moral improvement. Indeed it is fairly easy to point to examples in history whereby there was the latter without the former and vice versa. For instance, in his Magnus opus *A History of the English-Speaking Peoples* Winston Churchill contends that during the Roman occupation of Britain, "[t]he conquerors who so easily subdued and rallied the Britons to their method of social life brought with them no means, apart from stopping tribal war, of increasing the annual income derived from the productivity of the soil. <..> there was no new science, no new thrust of power and knowledge in the material sphere. Thus, the economic basis remained constant, and Britain became more genteel rather than more wealthy."(Churchill, 1956, pp. 30-31) Even in recent times, examples of countries that as a whole have become richer (e.g. through the exploitation of natural resources) but hardly more moral are relatively easy to find.

A counter argument could of course be that the presumed link between economic development and society becoming more genteel only materialized after the emergence of the market society. The causal relationship would then be seen as moving from the emergence of the market as the dominant force in a society via increased wealth as a result of this (thus excluding the increase in wealth due to other causes) to society becoming more civilized. This

[18] In fairness it is unclear as to what transition Montesquieu had in mind. It could be that the doux-commerce thesis states that people become more genteel when society moves from a feudal state, that is a pre-capitalist state to a market based society rather than a mere increase in market activity.

obvious trap here is that this invites us to start to extrapolate from the past to the present, in effect the *post hoc ergo propter hoc* fallacy. It is by no means obvious that the current situation is the logical outcome, let alone the foreseeable *intended* direct result, of past developments or actions. The links between past, present, and indeed the future are far more sensitive and far more dependent on accidental occurrences.

The earlier proponents of the doux-commerce thesis saw the extra beneficial effects of the market as *unintended* consequences, and a by-product of the core mechanism at work. This raises the question of what to think of a situation wherein these unintended consequences fail to materialize.[19] In any case, it provides yet another indication of a reductionist view of the world whereby progress is viewed as moving along a stipulated or marked path guided by fundamentals: "The concept of unintended consequences originally introduced uncertainty and open-endedness into social thought, but in an escape from their new freedom the purveyors of the perverse effect retreat to viewing the social universe as once again wholly predictable." (Hirschman, 1991, pp. 36-37).

In returning to the adjusted causality of the doux-commerce thesis with the introduction of increased wealth as the result of the market system, there is still the issue of how the interaction is taking place. When McCloskey argues that the market system has made us richer, it conveys little about the merits of the system. Yes it is true that we are now better off than 100 years ago in terms of income. However, income can only explain so much. A simple comparison between Vietnam and the UK when they had comparable income levels bears this out by indicating that the former can be considered to be more civilized in terms of e.g. education and health[20] (Kenny and Kenny, 2006, p. 67). In addition, it should not be ignored that standards of living improved even under societies based on slavery and communist dictatorships. We can buy more goods now and we have a greater selection to choose from—but that is not the point. No one would imply that simply more goods make for better morals.

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[19] Hirschman's book *The Passions and the Interests: Political Arguments for Capitalism before its Triumph* contains an exposé of these consequences and how they were thought to materialize; some of these were already covered in the section above on doux-commerce. Amartya Sen, in the foreword of the twentieth anniversary edition praises the fact that Hirschman has brought attention to the notion of 'intended but unrealized effects.' (1997, p. xvii).

[20] The comparison is based on data for Vietnam in 2000 when income per capita was $1,860 and the data for the UK in the early 19th century with an income of $1,700 per capita.

A second point that is often made is that we are now healthier and that this is the result of economic development (see e.g. McCloskey, 2006, p. 18). However, this relationship is not as straightforward as it is sometimes presented. The problem with this argument is that it makes the causality one-way, namely from increased income to better living conditions. This, however, muddles the fact that most of the health improvements are in effect the result of technological progress (Kenny and Kenny, 2006, p. 53). In addition, if one is to accept this point it would mean that the causality is now expected to run from economic development to technological progress and from there to improved living conditions. However, the more standard assumption regarding the relationship is that technological progress leads to economic development and this development leads to improved living conditions.

Next to technological progress there is also the issue of the role of the government in the presented virtuous relationship between markets and morals. If any good is to come from the market economy, so runs the argument that it will do so only if there is a higher authority present, i.e. an effective government: "In a market economy with imperfect and asymmetric information and incomplete markets—which is to say, every market economy—the reason that Adam Smith's invisible hand is invisible is that it does not exist. Economies are not efficient on their own. This recognition inevitably leads to the conclusion that there is a potentially significant role for government." (Stiglitz, 2005).

One of the criticisms leveled against the thesis put forward by Benjamin Friedman is that despite the many references to the interconnection between morality and economics, in the end he equates morality with government intervention on behalf of those less fortunate regardless of whether this intervention was successful or not. Friedman sees a clear and important role for government intervention to ensure that economic growth captures the *potential* moral consequences, or as Joseph Stiglitz remarks in his review of the book: "The market economy does not automatically guarantee growth, social justice, or even economic efficiency; achieving those ends requires that government play an important role." (Stiglitz, 2005).

In his book, Friedman asserts the existence of a positive relationship between economic growth and democracy. A rising standard of living will lead to more openness in a society and to more democracy. For now, it should be noted that the link suggested by Friedman between

development and democracy has some historical validity to it, but that multiple studies find only a weak link and one that is getting weaker (Bueno de Mesquita and Downs, 2005). Then, there is the econometric analysis by Eichengreen and Leblang (2006, 2008) which focuses on the interaction between democracy and globalization. Using data going back to 1870 the authors find that increases in democracy lead to increases in globalization whereas the reverse is also true. The extent of this relationship does however decrease by each successive increase. Similarly, shocks to either trade or democracy can move either in a negative or positive direction but within limits.[21]

Modern incarnations of the doux-commerce thesis have (out of necessity) altered the original assumed linkages between the market and morality, introducing the impact of increased wealth as a driver. Closer inspection makes it clear that this relationship between morality and wealth by way of the market system is not as clear-cut as it may look at first glance with other variables being taken for granted too much. Examples of these include technological progress and the role of government as outlined in the text above.

### 1.4.3 Discounting future well-being

The last issue relating the idea that the market will generate morally beneficial results by and of itself to be discussed here deals with the wellbeing of people. Although Montesquieu can be described as cheering on commerce for all the good it would bring, he did have some reservations regarding some of the other effects he thought would accompany the spread of commerce. For instance, he did express regrets about the monetization of human relations (Hirschman, 1997, p. 80). This particular aspect is of interest here as it shows that he opened up the idea of human relations becoming part of the market sphere, and in a sense becoming commodities and reducing personal autonomy. It is of course possible that this loss of autonomy is itself the result of an expression of autonomy, i.e. a voluntary action. Here my interests are on those situations wherein the loss of autonomy is not voluntary and thereby raises moral issues.

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[21] The relationship between trade and democracy was not always seen as a positive thing in the past, see for instance the remarks of Robert Lowe, a British MP in the nineteenth century: "Look at free trade. If we have one jewel in the world, it is our free trade policy. It has been everything to us. With what eyes do Democracies look at it? <…> America <..> outprotects protection." (Robert Lowe, 1866; cited in Hirschman, 1991, p. 96)

As Adam Smith pointed out, improving our condition is an overriding motive of all people (Hirschman, 1997, p. 39). Similarly, it is almost universally acknowledged that parents strive for the improvement of the standard of living for their offspring. An important element in both of these cases is that there is a close relationship between the party that is working for the improvement, in other words the party that has to sacrifice something for a set target, and the beneficiary party. It is the individual who chooses to forego pleasures now in order to reap the rewards for themselves or some other specified party at a later point in time. In the modern economy, however, not everyone is in a position to make this decision for him or herself. Nowadays, people's daily lives, especially in the economic sphere, are influenced by many forces that are completely beyond the control of the individual. Actions (e.g. economic policies and the associated trade-offs they entail) geared toward improving the economy are guided by the impact on the aggregate level and not by the impact on the wellbeing of the individual.

An example hereof can be found in the issue of child labor. The occurrence of child labor in a developing economy is often described as a phenomenon that will automatically disappear with increased economic growth and the associated improvements in income. To this assertion is often added the claim that the free market system is the most efficient way to increase growth and income and that, therefore, the less intervention in the market there is the quicker the economy can grow and the faster child labor will cease to exist. By actively addressing the issue now—so goes the argument—in the form of e.g. government labor market or education programs would divert funds away from market activity or in the case of stricter regulations would actively hinder market activity and thus may even deter the eradication of child labor. In short, we do not intervene in the current state (addressing current wellbeing) in order to allow for a more desirable state to realize itself in the future (future wellbeing). This type of reasoning raises some moral questions.[22]

One issue that springs from disregarding current wellbeing, in favor of future wellbeing, touches on legitimacy in terms of consent. The promise of a better life for him or herself or (grand-) children might induce a person to agree to forego current wellbeing. Most

[22] For more on the normative dimensions of treating the well-being of the current generation different than that of future generations see Gravel (2001, p. 487).

commentators will find this an acceptable and sound line of reasoning. However, in most cases of economic policy there is no personal consent other than perhaps the legitimization through political voting. This is a standard problem facing democratic decision making, balancing the preferences of the majority and the minority. In this case, the individual is not an explicit party in the trade-off between current and future wellbeing, so how can we justify asking someone to forego the improvement of their position now in favor of a better position in the future?

This discounting of wellbeing of those who are not party to the trade-off is morally questionable at the best and (depending on the context) morally unsound and indefensible at worst. Therefore, the first problem is that it usually is not the individuals themselves who are expressing the preferences underlying such a discount. The second issue has to do with the problem that the expected benefits may befall not the person(s) who are expected to make the sacrifice but some other unidentified future individual. A third issue that is raised by this type of reasoning has to do with realization. As with most investments here, there is no guarantee that the pay-off will materialize. Any person advocating refraining from intervention in the current situation in favor of a better situation in the future has to acknowledge that there is a possibility that in the end, although the sacrifice is made, the payoff fails to materialize.

Touching on the existence of these issues does not and should not be seen as a dismissal of these types of policies. This presentation rather aims to point out that when current wellbeing is externally sacrificed for future wellbeing, there are a number of assumptions at play with a clear moral connotation. However, in many accounts wherein the said policies are prescribed, these aspects remain more often than not ignored possibly under the delusion that there are no normative judgment calls at play. The trade-off may at the end of the day still be acceptable but this can only be determined after acknowledging and weighing these normative issues.

## 1.5 Chapter Summary

There has recently emerged a renewed interest in the relation between the market and morality with the prevailing view that the relation is filled with tensions; where there is a market there cannot be serious talk of morals and vice versa.

In this chapter, using the framework of Albert Hirschman, several theories about the interaction between the market and morality were discussed. One of these theories, known as the doux-commerce thesis, was subsequently singled out and reviewed in greater detail. According to this thesis, the market has beneficial consequences in a normative sense on a societal level. Commerce, its central message states, leads to more civilized societies. This idea has re-emerged in various guises over the years. This is all the more interesting given that one could argue, as Hirschman (1997) himself does in the epilogue of his book *The Passions and the Interests: Political Arguments for Capitalism before Its Triumph* that the doux-commerce thesis has proven to be false, and that one merely has to take a look at all that has passed during the twentieth century to see that it has turned out to be a false claim: "… no twentieth-century observer can assert that the hopeful Montesquieu-Steuart vision has been triumphantly borne out by the course of events." (1997, p. 118). Nevertheless, it is still around and can, as we shall see, even be found in current economic policy.

The market will not bring about morally beneficial results by and of itself. The argument that this is the case has been found to be flawed. From this, we can conclude that not only does it make perfect sense to talk about morality in connection with the market (as indeed many have over the last three hundred years) but also that we need some form of a compass or framework by which we appraise and thus steer market outcomes. A first step in this direction is to determine how we should view the market and subsequently how we should approach the market in relation with morality. This is the topic of the next chapter, where the notion of moral market boundaries is introduced. With the introduction of this notion of boundaries the idea of the market as the carrier of morality is abandoned and is supplanted by the premise that the market is in essence amoral and that the moral evaluation of its outcomes depends not so much on its own workings but rather on the context wherein it is allowed to operate. Morality, it will be argued, be it in the guise of labor standards or standard human rights, is instrumental in how the world is while it simultaneously reflects how we would like the world to be.