
OPINION

Translated by Tim Ennis

REFLECTIONS ON ETHICS AND THE MARKET*

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The intellectual believes in freedom and the peaceful coexistence of peoples. The intellectual attacks the free market. He is the first to suffer the consequences of central planning and wars, but he cannot accept the “materialism”, the “consumerism”, the “tawdriness” of the market. He is offended that a boxer or a striptease artist can earn more than a biologist or an historian. He cannot accept the “economistic” approach that weighs up costs and benefits according to a “quantitative” and “calculating” mentality that ignores the qualitative dimension of human life. He cannot accept the morality of a system that turns individual vices —self-centeredness and the profit motive— into public virtues: a high standard of living for the population. Sometimes he distrusts a framework that seems to arise from the Reformation and Calvinism: he warns that it is foreign to Hispanic and pre-Columbian values. Worse still —some say— it is one more link in the process of steady disintegration which is Modernity started by Descartes. So, “the invisible hand” seems inhuman to the intellectual, against people’s

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will, a sort of pseudo-God, a mythology, through which the few —usurers, powerful publicity agents, technocrats, multinationals— subjugate and exploit the vast majority. One must rise up against the “laws of the market and the economy”, and submit them to our will, as we submit the course of rivers and vegetation of valleys and mountains. “The economy should serve man” —it is proclaimed with the enthusiasm with which one announces a new finding— “not man the economy”. This is how to refute Marxism or totalitarianism, by arguing that the state should be at the service of man, rather than man at the service of the state. As if any Marxist or totalitarian whose name is worth remembering would really have wanted to argue the contrary!

The Free Market is a Method of Discovery

The historical and psychological analysis of the origin of ideas, while important, has nothing to add regarding its truth or falsehood. The Platonism with which Goedel saw mathematics was, as has been said before, a psychologically important factor in the genesis and orientation of his work on logic, but the truth of his demonstration of the incompleteness of arithmetic is known without needing to recur to it. Marx defended a theory of value and exploitation clearly influenced by Rodbertus. However, its truth or falsehood has to be determined independently from its historical origin. And the same is true for Adam Smith and economic theory in general. A defense of the opposing thesis obliges one to posit an historical conception of truth. If this is what one wants, than let us begin here: a reformulation of historicism able to answer the criticisms to which it has been subject in its earlier versions and to underpin scientific knowledge would constitute an important contribution to the philosophy of our time. Moreover this does not mean denying the value of historical studies. Quite the contrary, I believe that it is precisely historicism which threatens the specific validity of history as a discipline.

But the intellectual—including of course those associated with the “New Left” in its various guises— wants academic freedom. He well knows, and through experience, that rational analysis is not possible if one is not allowed to explore and try out different angles and approaches. He knows that without the right to try things out and make errors neither the full comprehension of a topic, nor of course original discovery, is possible. Nobody disputes the fact that scientific progress, as well as artistic creation, presupposes the freedom to try out and experiment with the new. Now, it so happens that market freedom is the equivalent of academic

freedom at the level of goods and services production. Just as researchers need freedom to test appropriate hypotheses and theories, those who work in industry or commerce, for example, need the freedom to try out formulas, products and services which better satisfy the needs expressed by individuals. Nobody knows, *a priori* and for ever, the most efficient way of making plastic or of investing one's own savings or those others have entrusted to you. This knowledge, like scientific knowledge, is always subject to review. Moreover, as tastes and customs change, what was appropriate yesterday may cease to be so tomorrow.

The economy should be free because our knowledge is limited. As Hayek has argued, a person who finds a way of "making money" perceives a lack of communication between individuals and bridges it. Its utility is in the signal that transmits the message. Other individuals, thus alerted, turn towards this activity, each one offers to provide the service in question in the way that seems best to him. However, it is consumers who judge. Analogously, the prestige gained by a scientist in a certain line of experimentation serves as a signal and makes many others turn in this direction. This shows that in this area it is possible to provide services which the consumers of science —the scientific community— deem to be valuable. Something similar occurs in the artistic field with trends, styles and schools. If money or prestige is not put at the service of what is good and true, it is individuals' fault rather than the system's.

In this sense, free competition is a method of discovery. The obstacles to exercising this freedom produce the same consequences as obstacles to academic freedom: stagnation, sterility, dogmatism and a waste of capacities and resources. Of course a centralized state can order investigations, surveys and pilot plans. But, is it conceivable that a committee of planners would have risked fiscal funds for Henry Ford to invent and develop the automobile, for the light bulb to be commercialized, or the steam engine, the cinema and the refrigerator? What technician would have been able to anticipate on any informed basis how the automobile industry would turn out, or what the consequences of the refrigerator for the food and agriculture industry would be? How can one anticipate, in general, the attractiveness, meaning and utility that inventions and new services are going to have? And above all, what valid reason can be given for setting up a regime of legal barriers and privileges governing the right to create and experiment? Here, one of Popper's arguments can be applied: the impossibility of true central and efficient planning is related to the impossibility of foreseeing the consequences of transformations in human knowledge. It is the creation of intellectuals themselves, it is academic freedom that makes central planning oppressive and inefficient.

Where Does Wealth Come From?

However, where does wealth come from? Are not the Marxists right when they argue that a free market regime makes the rich richer and the poor poorer? In other words, isn't a rich man made rich at the poor man's expense? There can be no doubt that if this were true the system would be unfair and, as Marx predicted, it would carry with it the seeds of its own destruction. But it is not true: of course, history has refuted the Marxist hypothesis time and again. Capitalism has raised the welfare of the population to previously unimaginable levels. Wealthy men there have always been. Great masses of people who wear shoes and use hot water, as well as heating and refrigerators, have only existed since capitalism. It has been suggested that centralist socialism has not been able to create a single machine or an original artifact for use in the home, but has only been able to copy the inventions of the capitalist world in this area.

When an individual buys a kilo of rice, the money he pays is worth less to him than the rice he receives, whereas for the shopkeeper the kilo of rice which he sells is worth less than the money he receives for it. Both gain and so an exchange is produced. For this purpose it is important for the contract to be free, because when it is not—for example under deception or duress—we cannot assume that the parties deem that here have been reciprocal benefits. Essentially, a contract can be set aside in private law—and this has been true since Roman times—only if it can be shown that it was not free. Fair price and market price are two sides of the same coin. This is the meaning of the principal of free will, which is the corner stone of free societies (in my judgment monopoly was aptly described by Scholastics like Luis de Molina who considered it a “vitiation of contract” which, like fraud, makes the price unfair).

The fixing of a price by law is equivalent to a prohibition on people making contracts according to their values or situation, who consider they could still obtain reciprocal benefits above or below the fixed price. This impedes or makes it more difficult for such advantageous exchanges to be identified and in the long run causes—in so far as black market operations are prevented—more resources to be destined to activities where they are least required.

But, how is wealth generated if both parties gain? Even if total production does not increase, free exchange can improve the situation of every individual without harming anyone, to the extent that there are different tastes and values. Let us assume—to simplify Alchian's example—that in a class each child is given 20 marbles and 20 sweets. Alberto arrives

after the share out and ends up with nothing. Determined to improve his situation he proposes to Juan, who seems more of a sweet-eater than a marbles player, to give him eight marbles in exchange for ten sweets. If Juan accepts, it is because for him eight marbles are worth less than ten sweets. While Juan thinks about it, he goes to Pedro and offers him six marbles in exchange for ten sweets. Pedro's acceptance shows that for him six marbles are worth more than ten sweets. With the two transactions carried out, Juan has thirty sweets and twelve marbles, Pedro has twenty six marbles and ten sweets, and Alberto, who had nothing before, now has two marbles. In total there is still the same number of marbles and sweets; however, all have improved their situation, including Alberto, who began with nothing. This is what free exchange achieves. Alberto's role is that of entrepreneur. And if free exchange favors individuals who trade, for the same reason it also benefits countries that trade, for they are comprised of individuals. The same reason that annuls the thesis of man's exploitation by man, also annuls the thesis of exploitation of one country by another, always provided, of course, that the contracts in question are freely entered into.

From the economic point of view, the price Juan is willing to pay for one more sweet is —measured in marbles— the number of marbles Juan is willing to give up to obtain this extra sweet. The value of this one extra sweet —measured in marbles— is the rate of substitution at which Juan would be indifferent between trading and not trading. From this standpoint —unlike that of Marx— the intrinsic value of the goods is of no importance, and is independent of what the individuals are prepared to give in exchange to obtain them. Is this the “qualitative” dimension of human life which the “economistic” approach of the theory does not encompass? Economics has been defined by Buchanan as the general study of contracts. Anything else, certainly, is outside economics.

And what about interest charges? Is it not the case —as Saint Thomas Aquinas argued— that the moneylender obtains something —interest— in exchange for nothing? And how can both parties —lender and borrower— benefit, if this is so? Is it not unfair that a person lends 100 today in return for getting back 100 plus 8 in interest the following year? But, “better a bird in the hand than 10 in the bush”, as the saying goes. If human life were infinite, interest would probably not exist. As life is limited and vulnerable, having bread today is more than a promise of bread for next month. For that reason someone has today will be interested in lending, in return for getting back something more than the amount lent next year. As Von Mises has argued, in the end it is the higher present value that justifies the charging of interest.

Minimum wage, yes; minimum wage laws, no

Is it fair that there are people who are dying of hunger when others drive around in Mercedes Benz? Of course not. Extreme need has been recognized for many years as exonerating responsibility in the case of robbery, for example. In my judgment, freedom of contract —whose outcome is the free market— cannot be invoked over and above the right to life. The state should, as far as possible, raise funds to enable it to ensure all inhabitants a minimum or subsistence income. This would be a direct subsidy which should be set in a cautious and prudential way, as for example defense spending is fixed. Maybe the best mechanism for doing this is what Milton Friedman has called a negative tax: a formula by which the state pays the whole subsidy to unemployed people and a fraction of it to those who earn less than a pre-established minimum.

But, that it is not the same as establishing minimum wage laws, for these, when set at a level above the market wage, translate into a privilege for the not-so-poor and an exploitation of the most poor, i.e. those for whom it would be advantageous to be hired at a wage below the minimum set by law. The most poor tend to go from earning little, to unemployment. Was it the intention to set this up as a mandatory ethical standard? Is this the way to give preferential treatment to the most poor? This is demagoguery that allows organized workers with power to exert pressure to obtain privileges at the expense of the poorest and most vulnerable.

Another ethical argument is put forward in favor of minimum wage laws: it is said that the “value” of human labor cannot be left to the mercy of the impersonal market. One has to understand here that “value” does not mean economic value but intrinsic moral value, because the economic value of work is what others —for pecuniary, ethical or aesthetic reasons— are in fact willing to pay in exchange for this work. Market or economic value reflects the values and customs of the society. If these are immoral, it is appropriate to use education, argument and persuasion to change them. But one cannot blame the thermometer for the patient’s illness. As regards the intrinsic and non-economic value of an hour’s work, it does not seem consistent, without now committing the sin of true “economicism”, to look for an equivalent monetary value for this, still less try to impose one. To rise up against the “invisible hand” of the free market is not to go against nature but the will of people.

The free market reflects ruling values, but does not generate them

But, it will often be argued, a system that encourages egotism, materialism and a spirit of profit-making is immoral; and clearly such reasoning could be valid. However, the system itself does not stimulate these defects nor the contrary virtues. Its first moral advantage is that gives us freedom, i.e. people can live as they see best —and, as far as possible, it causes the consequences of actions to fall on those committing them. In this sense, it is a regime based on freedom with individual responsibility. Secondly, a free market is the most faithful mirror yet known of the community's values, preferences and tastes. This information is indispensable for those who are interested and concerned for the morality of their fellow citizens. Materialism, consumerism and tawdriness, do exist, but they are properties of people rather than the system as such, and again, one cannot blame the thermometer for the patient's illness. If mysticism and asceticism were widespread, the demand for coca-cola and designer clothes would fall, as would the demand for automobiles and color televisions, boxers and strip-tease artists. On the other hand the demand for relics, habits, cassocks, religious texts, cells and hair shirts would all go up. Above all, the demand for time for contemplation would rise. The economy would be transformed to satisfy these needs. Many of our indices of development and welfare would cease to be valid or would have to be modified, but the system would continue being the most appropriate for the production of the goods and services demanded.

In a free economy, it is consumers who decide what goods and services should be produced, as well as how and for whom. It is the people, in disposing of their income, who decide who should be the owners of land and industries, of banks and communications media, as well as how much a dentist should earn, and how much a shoemaker, a boxer, a philosopher and or manager. Henry Ford become a millionaire because of the decisions of thousands of people who judged that the automobile he was offering them was worth more to them than the money they had to pay for it. Those who become alarmed by the wealth and power of multinationals, or of the communications media or financial conglomerates, seem not to understand that if the market is open, their wealth and power comes from the consumers who day after day freely patronize them because of the value of their services. The source of all this wealth and power is brought to an end whenever consumers so decide, by ceasing to make use of them.

It is therefore not a necessary condition for building a free society (although perhaps it may be if we also want to be prosperous) for Chileans

to become as frugal as the Scottish people, or as disciplined as the Germans: what really matters is achieving a market without legal entry barriers to the various productive activities. Only in this way is it possible to detect and as far as possible satisfy the aspirations expressed by individuals, i.e. the organization of a free society. Yet, are not artificial needs created by publicity and propaganda techniques? Of course, much publicity is informative and so useful for making informed choices. So it is difficult to distinguish between what is natural and what is artificial. And where this is possible, it does not imply that a product is good or bad. For example, deodorant: is this artificial? And if so, should it be condemned? Moreover, the use of audiovisual media to persuade, was not invented by capitalism. It is sufficient to visit the old European cathedrals to realize that clerics used images, words and music to convey their message. And this tradition is maintained and has become invigorated in our own time. In the United States, various religious groups and churches use the television profusely. In New York there are two cable channels exclusively dedicated to religion. What is important is that there are no exceptions and prohibitions preventing free access to the ownership and management of communications media of any sort. Precisely because they are powerful the law needs to be prevented from guaranteeing concentration of their persuasive power in a few hands, whether these be erudite or not.

Of course the will of a wealthy person carries more weight—given its greater purchasing power—than that of a poor person. But as the wealth of the former is, once again, the outcome of prior decisions by consumers, this inequality is legitimate. If and only if the starting point (the initial distribution of goods) is fair, the subsequent distributions that arise in a free market formed by free contracts will also be fair. This is true despite guaranteeing a minimum income insofar as is possible and appropriate, as well as ensuring national security, the functioning of the courts and public order via taxes raised by the state. It is important to note that one has to be fair both in the starting point, or initial endowments, as well as in successive contracts. Usually critics of the free market system are not really objecting to the injustice of the way the market operates as such, but they point to the injustice of the starting point in certain specific societies. Once this situation is corrected they admit the justice of a system based on private property and freedom to pay. (Of course, what should be deemed a fair initial endowment and what not, goes beyond the scope of this article). However, there are others (Marx, the “New Left”, etc.) who attack not only the initial starting point but also freedom of contracts as a criterion for fairness.

But if initial distribution is just and one accepts the fairness of the principle of freedom to contract as indicated, what is to be done with the economic inequalities that are generated in a free economy? There is no reason to attempt, by force of law, to impose an equality of economic outcomes that consumers do not support as a matter of fact. Equality of outcome—if this were indeed a shared value—would tend to arise spontaneously as a result of the voluntary and individual decisions of consumers who would refuse to make contracts with wealthy people who are outside the limits of accepted equality or inequality.

This holds whenever there really is an open market, and that implies the corresponding institutional and juridical framework whose application is part of the art of politics. In this sense, a society that self-generates the allocation of its resources, i.e. of the means man needs to achieve his goals, is an ideal and should be presented as such. A social ideal is a corrected version of what is, a hope placed in what could and ought to happen. It is for that reason the theory of freedom tends to be fulfilled in a social sense as successive approximations and restructuring, as a collective political project and individual lifestyles.

If there are groups who live in opulence and indifference, knowing that there are others who are more needy, then something is wrong. At least for those who believe in the value of generosity. However, what is wrong in this case is not the system—if it is free and guarantees a minimum wage—but the morals of this group of wealthy people who are insensitive to the suffering and needs of others. What one must try to change, by persuasion rather than force, is the moral conscience of such individuals, not the juridical order. Once again, the thermometer measures the level of fever but it is not its cause. On the contrary, more than any other, a free socioeconomic order makes it possible to give human generosity its full meaning and depth. So, if certain people, with incomes above the guaranteed minimum, do not have enough to buy more than a bicycle whereas others can buy a second Mercedes Benz, the state has no reason to become involved in the matter by deploying its characteristic monopoly of force. And this means that the mission of intellectuals, artists, teachers and priests in a market economy is huge and irreplaceable: to give guidance through the conviction and example of a community of free men.

Free market choices: democratic central planning and totalitarianism

Theoretical exercises of decentralized socialism, whenever they achieve a free market, are subject to criticisms that are analogous to those

which have been put forward here regarding the capitalist free market, and its defense is also possible along the lines of thought I am suggesting. The radical alternatives are, in this sense, the ideals of a central democratic planning and totalitarianism.

Would not a socialized system of voting—one man one vote—be a more faithful mirror of individuals' economic decisions? Even leaving aside its practical viability, would it not be better in theory to replace the free market by majority rule? This issue warrants a more detailed analysis. There are many reasons why a system of central planning chosen by vote would *per se* distort the preferences of individuals more than the free market. I can suggest two: in elections the votes of the minority are lost, yet in the market every peso plays a role in the economy. Thanks to this, a way can be found to satisfy the needs of minorities for classical music disks, for example, or history books or lyrical and metaphysical poetry. A regime of elections would, by definition, be unable to faithfully reflect minority values and preferences. Thus, in general, the system enshrines exploitation of minorities at the hands of majorities. Secondly, a system of elections is by definition incapable of reflecting the different intensities of people's various preferences. A regime of elections assumes that all have approximately the same interest in every issue on which they vote. It is easy to imagine the distortions of preferences that would be caused by generalizing a system of this nature, if it were implemented to replace the free market.

As regards income distribution, enormous differences might still be earned, and just like the market, those who have been favored by previous elections would have more wealth and power than those that had not had the same luck. Leaving aside goods which, like defense, among others, due to the indivisibility of their supply ought not to be susceptible to voluntary individual appropriation, whenever the free market is replaced by a system of political decision-taking, such as elections and voting, a more precise instrument for listening to people's preferences is replaced by a less precise one. At least I do not know of anybody who has demonstrated the opposite. The efficiency of the free market, therefore, is inseparable from its value as a system that is at once free and fair. Its efficiency is its capacity to reflect, in the most faithful way known, the preferences of individuals who live in society.

If a system of elections by majority rule is less faithful in allocating resources than the free market, the radical possibility that remains is a regime where the values, tastes and customs that the group in power deems good, appropriate and true are imposed by force—in the best of cases with the support of the majorities. This is totalitarianism. This is what happens

today in Iran where modern music, rock and its derivatives, is forbidden because it may disorder the senses and lead to an immoral life. This is what the Great Inquisitor proposed to Christ in the Dostoyevsky novel. If we know the true values, the Great Inquisitor thinks in the end, why does Christ, who is God and all-powerful, allow men to diverge from the correct path? Why run the risks of freedom when we know that eliminating occasions of sin as far as possible by force, we lessen evil, and up to a point help to increase the number of saved souls? This is the perennial temptation of totalitarianism. It is the identification of law and morals, which simultaneously destroys the morality of law and one's own sense of human morality. It is not enough that something should be bad for it to be prohibited by the state. From an ethical point of view the value of freedom has nothing to do with the relativity or non-relativity of morals. Freedom has value because it is a necessary condition for the morality of an act.

What value would generosity have, or the conservation of local customs or austerity, if they could be demanded with the compulsive force of law? This is what totalitarianism fails to see. For this reason the struggle to bring the ideals of a free social order into reality starts from an ethical imperative.

"The intellectual is against the free market". But it is this really so? I would say that it is true of most intellectuals of the old guard, but not of many young intellectuals of certain European universities and many United States ones, who are actively working on the task of discovering and projecting the depth and meaning of theories that aspire to a society based on the freedom of people. And this, I believe, means that the West is getting to its feet.

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