The Global Economy
Mini-Case

Are Markets Moral?

Revised: March 7, 2016

Remarks made by David Backus at a debate organized by Professor Bruce Buchanan, Director of the Markets, Ethics, and Law Program at NYU's Stern School of Business. At the debate, roughly 75% of the audience (mostly business students) disagreed with the proposition: markets are moral.

I'm an economist, so the idea of morality is wasted on me, not to mention good taste. Maybe I should have mentioned that to Bruce earlier. Markets, though, I think about a lot: markets for food, beer, drugs, baseball tickets, election futures, body parts, you name it. If you can imagine it, I'm happy to talk about it and eBay is probably happy to sell it.

So are markets moral? I asked a bunch of my friends, and none of them thought the question made any sense. Maybe that's telling me I need new friends. But I think their point is that markets are a tool, and tools are neither moral nor immoral. We could say the same for hammers, saws, and even guns. On the whole, markets are a lot less dangerous than guns. As my colleague John Leahy put it: "Markets don't kill people, guns do."

If you look around the world, it's hard not to conclude that markets are an extremely useful tool for generating prosperity. Even Marx and Engels admitted that. A couple decades ago, we found lots of people trying to go from East to West Germany, but very few the other way. I think we can assume that they thought this was a good idea. Today we see people trying to move from Mexico to the US, or from North Korea to China. Not all of this is about markets, but a lot of it is. The US has more and better markets than Mexico, and God knows what passes for markets in North Korea. Right now, we're seeing the greatest reduction in poverty the world has ever seen as China and India undergo relatively modest increases in their use of markets.

It's true, of course, that markets have a dark side. Reality TV is one. And in my business there's the shock of finding out that your dumbest classmate in graduate school is now worth a billion dollars.

That's the usual advertising for so-called free markets, but I'd like to make a different point with an example. A few years ago, I was at a conference in Budapest. I took the train from Prague with a friend and got to Budapest about midnight. We weren't ready for bed, so we went for a walk along the Danube. As we walked along, women would go out of their way to say hello. I thought to myself, what a friendly town! The next night we were drinking beer with friends, which is what we do at conferences, and asked them whether that market was legal in Hungary. We didn't get an answer for Hungary, but were told that in Turkey it's legal to sell, but not to buy. That sounds strange, but it turns out the Turks have devised a brilliant system. They not only protect the sellers, they have an ongoing opportunity to embarrass politicians, who seem to be among the most active buyers. Imagine what Jon Stewart could do if the US adopted this system.

The next year I was at the same conference, this time in Vancouver. I got up one morning and was reading Canada's leading business newspaper, the National Post, and ran across an article about prostitution in Germany. Apparently Germany did one better than Turkey and legalized both buying and selling. What they noticed (according to the article) was that legalization led to a better market experience for both buyers and sellers. Sellers found that they could now call the police when they were robbed or beaten, and buyers appreciated the regular health checkups imposed on the sellers.

The point is not that we should legalize prostitution — I'll let someone else take that one on — but that markets work best when there's a legal infrastructure, what we would call institutions. That's why I referred earlier to better markets: it's not just the existence of markets, but the institutions that support fair and honest exchange. In this country, we're the beneficiaries of centuries of institutional development that have turned out to work pretty well for most people. In many other countries, not so much. China has been doing very well, but it's still possible to be poisoned by cough syrup or milk. In Russia, an entrepreneur stands a fair chance of having his business stolen — taken lock, stock, and barrel, possibly with the connivance of the government. In Mexico, more than in the US, government is often used to protect the businesses of the rich and powerful. Carlos Slim is one of the richest men in the world, and a large part of his wealth is said to have been accumulated with the help of government policies that disadvantaged competitors.

In short, markets are great tools, but they work best when they have strong legal and political support. Bruce's second question is whether markets encourage immoral behavior. Certainly it's easy to think of people who have succeeded by lying, cheating, and stealing. Some got caught, some didn't. Did markets make them that way? Let me quote Warren Buffett: "Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars."

Related quotations

Adam Smith (*Wealth of Nations*): "[An individual] generally neither intends to promote the public interest, nor knows how much he is promoting it. .. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it."

Karl Marx and Frederich Engels (*Communist Manifesto*): "The bourgeoisie has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former exoduses of nations and crusades."

Theodore Roosevelt ("The New Nationalism," 1910): "Now, this means that our government, national and State, must be freed from the sinister influence or control of special interests. ... The Constitution guarantees protections to property, and we must make that promise good. But it does not give the right of suffrage to any corporation. ... The citizens of the United States must effectively control the mighty commercial forces which they have themselves called into being."

Lou Dobbs (online blurb for his book, *Exporting America*): "The shipment of American jobs to cheap foreign labor markets threatens not only millions of workers and their families, but also the American way of life. Corporate raiders are breaking down our borders in search of the lowest-price labor available anywhere in the world. For the first time in history, corporations are laying off Americans from well-paying jobs and replacing them with low-paid foreign workers. ... Corporate America isnt doing all this alone: Big business and Washington are in cahoots, trading our nation's livelihood for short-term gain."

Ernesto Zedillo, former president of Mexico: "Half of the world's population lives on less than $2 a day. I say to you, with all conviction, that a vital part of the solution consists of promoting more globalization. More international trade, more investment flowing across countries, more knowledge diffused internationally among communities and individuals ... will do much to defeat the evil of poverty during this new century."

Richard Posner (Becker-Posner blog, October 23, 2006, on price gouging): "But here is an interesting wrinkle. Admiralty law and common law alike forbid certain practices that might be described as 'price gouging.' Suppose a ship is sinking, and another ship comes along in time to save the cargo and passengers of the first. The second ship demands, as its price for saving the cargo and passengers of the first ship, that the owner of the ship give it the ship and two-thirds of the rescued cargo, and the captain of the first ship, on behalf of the owner, being desperate agrees. The contract would not be legally enforceable; under the admiralty doctrine of 'salvage,' the second ship would be entitled to a 'fair' price for rescuing the first, but to no more.'

Laura Meckler (*Wall Street Journal*, November 13, 2007): "Amid a severe kidney-donor shortage, an idea long considered anathema in the medical community is gaining new currency: payments for people willing to give up a kidney. One of the most outspoken voices on the topic isn't a free-market libertarian, but a prominent transplant surgeon named Arthur Matas. Lately, he's been traveling the country trying to make the case that barring kidney sales is tantamount to sentencing some patients to death. 'There's one clear argument for sales,' Dr. Matas told a gathering of surgeons earlier this year. The practice, currently illegal in the U.S., 'would increase the supply of kidneys, save lives and improve the quality of life for those with end-stage renal disease.'"

Stanley Zin (NYU Stern professor): "Money can't buy happiness, but it's an experiment most people want to run for themselves."

SMBC webcomic (recommended, really):

http://www.smbc-comics.com/index.php?id=3831

Discussion questions

1. Give examples in which you think markets work well, and other examples in which they work poorly. How did you decide whether or not they worked well or not? What factors led them to work well or poorly?

2. Do you think we should have more or less market activity in the following areas:
   - international trade in goods and services?
   - international trade in assets?
   - shortages following natural disasters?
   - addictive drugs?
   - human organs?

3. Do markets contribute to prosperity? Are markets moral? Are they the same thing?