The moral embeddedness of markets

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Abstract

This paper addresses the question of what role morally oriented behavior plays in the efficiency of market outcomes. This issue is as controversial in economics as it is in sociology. To get a better understanding of the problems and opportunities involved in morally oriented behavior in markets, I develop a typology that distinguishes four different forms of morality-based behavior and try to understand what consequences derive from these types of morally motivated action. The four forms I discuss I call "cooperation," "group solidarity," "blocked exchange" and "altruism." There is a fifth – parasitic – type that I call "Trojan altruism." I argue that the contested role of morality is rooted in the profoundly ambivalent consequences that morality has on market efficiency.

Zusammenfassung

In diesem Discussion Paper betrachte ich die Auswirkungen moralisch orientierten Handelns auf die Effizienz von Märkten. Diese Frage ist sowohl unter Soziologen als auch unter Ökonomen stark umstritten. Um zu einem besseren Verständnis der Probleme und Chancen zu gelangen, die sich aus moralischen Handlungsorientierungen für Marktbeziehungen ergeben, entwickele ich eine Typologie, mit der vier verschiedene Formen moralgestützten Handelns unterschieden werden. Die vier Formen nenne ich „Kooperation", „Gruppensolidarität", „blockierter Tausch" und „Altruismus". Darüber hinaus besteht ein fünfter, parasitärer Typus, den ich als „Trojanischen Altruismus" bezeichne. Ich zeige, dass die umstrittene Rolle von Moralität für Märkte ihren Hintergrund in den tatsächlich zutiefst ambivalenten Folgen von Moralität für die Effizienz von Märkten hat.

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Introduction

What role does morality play for market outcomes? For most sociologists the functioning of markets is closely connected to the moral conduct of economic actors. This position is expressed, for instance, by the French sociologist Émile Durkheim (1984) who argued that purely self-interested behavior cannot produce stable exchange relations. Only through the "non contractual conditions of contract" do actors feel effectively bound to the contractual obligations they have agreed to. The moral code stops actors from exploiting their exchange partners through opportunistic behavior. This way morality supports the functioning of markets by reducing transaction costs. Another sociological classic, Max Weber (1984), made morality a cornerstone in his explanation of macroeconomic development: For him the emergence of modern western capitalism had an indispensable basis in the moral doctrines of Protestantism. Wolfgang Streeck (1997: 198) followed this idea by introducing the notion of "beneficial constraints," meaning that the performance of an economy "may be improved by the surrounding society retaining and exercising a right for itself to interfere with the choice and pursuit of individual preferences."

However, the conviction that markets need a moral basis has not gone undisputed in sociology (Luhmann 1986, 1988). But more than sociologists, economists have challenged this position. Most famously the model of the "invisible hand" expresses the connection of public virtue to private vices and thereby disconnects market outcomes from morally motivated action.

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard to their self-interest. (Smith 1976: 18)[1]

A famous contemporary expression of the unwanted consequences of morally motivated behavior in markets is Milton Friedman's (1973) dictum that "the social responsibility of business is to make profits." According to Friedman, any deviation from profit maximization is itself *morally problematic* since the moral task of economic actors is to maximize economic welfare.

While economists standing in the neo-classical tradition see moral action orientations as blocking economically efficient outcomes, economists from other theoretical traditions presume that the logic of self-interest must be moderated by morality in order to allow for the "common good" or even for the functioning of markets itself. The institutionalist tradition, and also the new microeconomics, see norms, values and trust as

1 This reading of Adam Smith reflects the interpretation of his work by proponents of the neo-classical tradition in economics. Smith scholars have argued pervasively that this is a flawed interpretation of the Scottish enlightenment philosopher (Wight: 2002). The purpose here, however, is to present an analytical position that plays an important role in economic thinking.

indispensable elements of the functioning of markets (Arrow 1973). There are situations where selfishness should be held back by moral principles to achieve superior outcomes. The reason is that markets themselves are "morally unreliable" (Offe 1989). Morality is certainly not the only mechanism by which market failure can be corrected. Morality does play, however, an important role for overcoming free-riding and for solving principal-agent problems.

These brief remarks give an impression on the essentially contested role of morality for market outcomes. The conflict is not one that separates academic disciplines; it runs through disciplinary lines. My intention in this paper is to critically examine these positions: Does morality hinder economic efficiency or is morality a necessary condition for markets to operate? Which problems exactly can be resolved through morally motivated behavior? And which limitations to economic efficiency are caused by morality?[2]

The question of the effects of morality on markets is not only of academic interest. It is also from the background of recent corporate scandals that morality in business – or the lack thereof – has become a pressing issue in public debate. Have corporate managers become more selfish? What institutional or moral safeguards are needed to prevent the excesses that brought companies like Enron and Worldcom to bankruptcy?

What I will argue in this paper is that the contested role of morality has its causes in the indeed profoundly ambivalent consequences that morality has on market outcomes. Morality allows for the emergence and stabilization of market exchange, but it is also an action orientation that can block exchange relations that are economically beneficial. I intend to contribute to a better understanding of this ambivalence by introducing a taxonomy that distinguishes four different forms of morality-based

2 In focusing on the economic effects of morality on market outcomes, I will not deal with three other questions related to morality in the economy. First, I will not discuss the question of the consequences for economic theory that derive from the inclusion of morality. Amartya Sen (1977), among others, has shown that morally motivated behavior demands profound changes of neoclassic economic models since it involves "in a very real sense, counterpreferential choice, destroying the crucial assumption that a chosen alternative must be better than (or at least as good as) the others for the person choosing it" (Sen 1977: 33). The notion of metapreferences is one well known suggestion to include morality into economic theory (Sen 1977; Hirschman 1986; Etzioni 1988). Secondly, I will deal only marginally with the question of non-economic justifications for "moral systems of exchange" (Biggart/Delbridge 2004). Economic efficiency cannot provide by itself justification for certain behaviors or institutional regulations. To submerge normative questions under the logic of efficiency would be a categorical mistake. A third question connected to the issue of morality and markets that is not dealt with here refers to the relationship of morality and institutions. What institutional support do actors need in order to make it more likely that they will actually act in accordance with the moral convictions they hold (Hirschman 1986; Offe 1989)?

behavior and try to understand what consequences derive from these types of morally motivated action. The four forms I will discuss I call "cooperation," "group solidarity," "blocked exchange" and "altruism." There is a fifth – parasitic – type that I will call "Trojan altruism."

By morality I mean that actors act in accordance with some principle which is oriented (also) toward the well-being of others or the common good and is followed even if it demands to forgo additional personal profit or utility. Amartya Sen (1977) has called this action orientation "commitment." With reference to the terminology introduced by Robert Frank (1990), one can formulate: to act morally, an actor must be willing to engage in "irrational behavior without regret." "Irrational behavior" refers to decisions that deviate from individual utility maximization. The "lack of regret" implies that the behavior was chosen not simply by miscalculation of outcomes but by a deliberate choice.

My argument is not that the observation of inefficiencies due to moral orientations of actors gives justifications to change these expressions of value rationality. Instead the argument is that economies operate within the context of a moral universe that resists the logic of economic efficiency and that at times this resistance is itself a precondition for market exchange, while at others it produces inefficiencies.

A typology of moral behavior in market exchange

Morality can enter into market exchange in four different forms. It can enter by taking one's own well-being *and* the well-being of others into consideration. This I will call "cooperation." An important special case of cooperation will be discussed under the heading of "group solidarity." The third typological form in which morality can enter into market exchange is by an action orientation that is entirely non-consequentialist, i.e. which disregards the welfare effects for ego and alter-ego. This comes closest to Weber's (1985) notion of value rationality. I will refer to this as "blocked exchange" (Walzer 1983). Morality can also enter the decision-making process in the typological form of ignoring consequences for one's own well-being but having the well-being of others in mind. This I will call "altruism." Finally, the last form is a parasitic way for morality to enter a decision-making situation. It indicates an action that appears to be beneficial to others but is in fact primarily advantageous to the actor himself. This behavior, which is actually immoral, I will call "Trojan altruism."

Table 1 Typology of moral action in market exchange

		Ego	
		Non-beneficial	Beneficial
Alter ego	Non-beneficial	Blocked exchanges	(Trojan altruism)
			Group solidarity
	Beneficial	Altruism	Cooperation

Cooperation

By cooperation I refer to a set of reciprocal promises and expectations that guide exchange relationships in a mutually beneficial way. Such promises and expectations can become effective through an intersubjectively shared moral code that binds the behavior of the parties to the exchange. Based on this moral code, market participants will fulfill their contractual obligations even if it would be advantageous for them not to do so. They will also disclose relevant information accurately.[3] Morality in "cooperation" can contribute to the solution of prisoner-dilemma situations and principal-agent problems.[4] In the prisoner dilemma, all players will achieve a superior outcome if they cooperate. Effective ethical codes can help to induce cooperative behavior and thereby contribute to resolve endemic free-rider problems (Arrow 1973; Beckert 2002a). The significance of morality in principal-agent situations is no less important. It has already been described by Max Weber (1984) in his treatment of the role of Protestant sects in American business life. Weber observed that sect members are trusted in business relations disembedded from the local community due to an effective ethical code that will bind the behavior of the sect member even when conducting business with complete strangers. Hence the ethical code allows actors to engage in

3 An increasingly relevant counter-example is fake medication. Particularly in Third World countries, patients are increasingly confronted with bogus medications that either contain no active ingredients or even include substances that are poisonous. Pharmaceutical companies are not only worried about this tendency because it effects their business through a loss in short term sales, but also because it can lead to market failure due to a loss in customer confidence in the effectiveness of medications.

4 Granovetter (1985) has made an important point that the effectiveness of behavioral norms depends not only on value convictions, but especially on the concrete structures of social relations.

mutually beneficial transactions that are otherwise considered too risky and would not take place. Both parties in the exchange profit. In other words, morality can help to prevent market failure and thereby increases the efficiency of the system.

Prisoner dilemma situations and principal-agent problems both show little ambivalence with regard to the consequences of commitment-guided behavior for market outcomes – morality has almost exclusively positive effects. If the logic described by George Akerlof (1970) for the used car market holds true, then not only the principal (the buyer of the car) is better off if he or she can rely on the accuracy and completeness of the information revealed, but also the agent himself is better off. Otherwise the market would fail to come into existence or more costly monitoring devices would need to be introduced. The same holds true for labor relations where a lack of any other motives besides personal gain will have negative effects for productivity (Akerlof 1984). A similar argument can be made with regard to professional ethics that are a coordinating force in the exchange relations between laypeople and expert systems.[5]

Group solidarity

A closely related type of morally guided behavior affecting markets is "group solidarity." It is based on the pooling of resources. Group solidarity differs from "cooperation" by drawing a boundary between those actors covered by the moral obligations and those not covered by these obligations. Through this boundary of exclusion – or network closure (Coleman 1990) – group solidarity achieves an ambivalent status as the moral principles are only coordinating behavior *within* the group. Behavior can be non-moralistic, purely self-interested with regard to the consequences of decisions for outsiders. Solidarity is a non-universalistic ethic (Bayertz 1998).

Looking at social relations *within* the group, "group solidarity" has characteristics similar to "cooperation." It is a mechanism for improvement of one's own situation *and* that of other group members by overcoming free-riding. Solving free-rider problems is a precondition for the effective pooling of resources. In modern capitalist

5 The only ambiguity arising in the prisoner dilemma and in principal-agent situations is with regard to the trust-taker or agent. Particularly when the behavior of the agent cannot be completely observed by the principals, it might be a more profitable strategy for him or her to alternate between moral (cooperation) and immoral (defection) strategies. Such mixed strategies do not necessarily lead to market failure, in part, because the exchange partner does not have the information to know which strategy the agent actually follows. As experimental studies in game theory show, there are other strategies besides unconditional cooperation that have superior pay-offs for the trust-taker (agent) compared to unconditional cooperation. For the agent it may be sufficient to act partially morally to earn the full benefits of morality. However, this behavior would not be covered by the notion of morality applied in this paper according to which moral behavior reflects counter-preferential choices.

economies the union movement is probably the most relevant empirical form of group solidarity. Unions enhance the workers' power positions in the industrial conflict by credibly threatening to withdraw a significant amount of labor from the production process that cannot be substituted for in the short run. Unions do have the instrumental goals of negotiating better wage settlements, working conditions or greater job security. However, as Claus Offe and Helmut Wiesenthal (1985) have shown, membership mobilization by unions cannot rely exclusively on rational instrumental motivations, but it must also appeal to a *moral obligation* to participate, even if unions want to serve nothing "but the member's individual utilitarian interests" (Offe/Wiesenthal 1985: 183).

Commitment-based behavior leading to the pooling of resources can have positive consequences for the instrumental goals *of the group members*. Its role in market efficiency, however, is highly contested. From a market-liberal perspective union solidarity amounts to a cartel that increases prices for labor and thereby leads to inefficient equilibria. Based on this claim, unions are seen as being responsible for unemployment. This argument, however, does not go unchallenged. According to institutionalist approaches in economics (and sociology), unions do play a constructive role in markets and general economic welfare by helping to institutionalize industrial conflict, forcing companies to invest into their competitiveness and increasing consumer purchasing power (e.g. Streeck/Schmitter 1985).

The positive role of group solidarity has also been demonstrated in research on ethnic economies (Portes/Sensenbrenner 1993). Here network closure can help overcome market failures that arise through discrimination. This can be exemplified by ethnic economies in the U.S. In order to be able to start a company, some immigrant groups, who do not have access to American capital markets, come together in rotating credit associations, pooling their assets and using them in turn to finance their individual businesses. This makes it possible to create firms, which otherwise would not have been established. Though these associations rely on intense reciprocal monitoring of its members, they are also based on the moral implications of belonging to the same ethnic group.[6] At the same time, non-members of the ethnic group are excluded from the benefits and thereby discriminated against through ascriptive criteria. This shows the purely self-interested side of group solidarity with regard to non-members.

Community or family based network closure is, however, by no means unequivocally positive for the economic well-being of the members of the solidaristic community. If moral codes demand that economically successful family (or community) members support less successful members by transferring resources, these resources are not available for individual business investments. As observed by anthropologists, this can inhibit economic development and gives rise to avoidance strategies by which success-

6 The closure of the community was also a precondition for effective monitoring.

ful entrepreneurs try to circumvent family obligations. One interesting strategy has been observed in indigenous villages in Ecuador. Male owners of garment and leather artisan shops convert to Protestantism. By doing so the entrepreneurs "remove themselves from the host of social obligations for male family heads associated with the Catholic Church and its local organization" (Portes/Sensenbrenner 1993: 1339). In more general terms, this supports Max Weber's claim that one of the chief causes for the success of modern Western capitalism was that Protestantism guided economic exchange away from the close connectedness of economic affairs to social obligations.

Weber (1986) alluded also to a further problematic consequence of distinguishing between a morality within the group and an external morality that is characterized by pure utilitarianism. He found this type of particularism in societies adhering to Confucianism and saw in it the reason for general mistrust becoming a dominant feature in all business relations reaching beyond the group's boundaries. Not morality as such but a morality that is only valid for the family and the clan was a factor that prevented the development of extensive exchange relations.

Blocked exchange

The third type of morally guided behavior in markets I will call – using a term introduced by Michael Walzer (1983) – "blocked exchange." Blocked exchange refers to the *prohibition or restriction* of the monetary exchange of certain objects or services based on moral codes. It is the opposite of cooperation where the function of morality is to *enable* market transactions. Blocked exchanges *prevent* the market exchange of certain goods and services by keeping them outside the market realm.[7]

Which transactions are blocked changes historically and differs between societies. Therefore it is not possible to make a finite list of goods and services to which exchange restrictions apply. Two economically crucial fields where such changes have occurred are the limitations of charging interest for lending money and the abolition of slavery. Cultural differences can be seen in religiously motivated taboos on the consumption of certain food products like pork.

Despite historical and social variance it is possible to list categories of goods that are likely to be restricted from monetary exchange in modern societies. One category are exchanges that affect the human body. It is prohibited to buy another person (slavery

7 Societies may succeed only incompletely in the enforcement of such blockages. This does not, however, invalidate the claim that certain exchanges are morally rejected and that subsequent restrictions do have effects on the way these goods and services are exchanged.

and adoption).[8] The commercial sale of body parts for medical reasons is mostly forbidden (organ markets); in many countries women are prohibited from carrying a child to term for another, infertile woman (reproductive medicine); and the sale of sexual services is restricted and even prohibited in many countries (prostitution). A second realm is the market exchange of political influence and offices. The purchase of political decisions is called corruption and as such illegal. The third realm are legal claims and obligations that cannot be purchased or sold. There is no market for trading criminal punishment. The rights to vote, to freedom of expression or to freely exercise one's religious beliefs are all non-marketable.[9]

In general terms, blocked exchanges are characterized by the separation of the goods or services that are connected to "sacred" (Durkheim) social values from the "profane" sphere of the market. It is not instrumental rationality that motivates exchange blockages but rather value rationality (Weber), i.e., the belief in the value of an action independent of its consequences for oneself or for others. As Durkheim has argued, the act of establishing such taboos is an important aspect of the identity of a social group. This implies that blocked exchanges cannot be explained by their contribution to economic efficiency. The idea that political decisions and human beings cannot be bought might have positive economic consequences. Nevertheless, the justification for prohibiting corruption or abolishing slavery is not based on an economic rationale but rooted in social values which discredit corruption and slavery on moral grounds.

Even if norms cannot be explained functionally, it is possible to ask for economic consequences of restrictions on specific exchanges since they do not have merely moral relevance, but have functional consequences for the economic system as well. According to Max Weber's theory of rationalization the (originally religiously motivated) decoupling of exchange from moral obligations was one of the crucial preconditions for the development of a modern, functionally differentiated economy. The dissolution of religious restrictions on money lending, the decoupling of exchange from particularistic privileges and the development of modern labor markets were among the most important developments in this process. A case for positive economic effects stimulated by the decoupling of economic exchange from moral restrictions has been analyzed by Viviana Zelizer (1979) in her research on the development of the life insurance industry in nineteenth-century America. This industry was originally blocked by moral objections, primarily expressed by women, who refused to receive a "premium" for their husband's death. For many years this moral conviction blocked the development of an effective financial instrument for the economic protection of widows.

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8 Labor markets have the characteristic that not the person itself is bought but rather his or her labor power.

9 A much more complete list of blocked exchanges is provided in Walzer (1983).

It is not possible here to show the consequences of blocked exchanges in detail. This would demand a close discussion of each morally motivated restriction on market exchange. What I want to illustrate briefly, however, is that the economic effects of blocked exchanges show profound ambivalences with regard to individual welfare and macroeconomic efficiency. While the aforementioned examples point to negative economic consequences, examples for positive economic effects from restrictions of market exchange come easily to mind. Such effects can be attributed to the blockage of the purchasing of political decisions, as can be seen from the examples in corruption-ridden countries. Also, the restrictions on the use of labor power – for instance the prohibition of child labor – have positive economic implications regarding the future productivity of children.

One complication with regard to welfare effects derives from the following paradoxical effect that has been observed in the market for blood (Titmuss 1971). The blood market – and possibly other markets for goods taken from the human body as well – has an untypical supply curve. The introduction of an exchange market for blood does not leave the supply of voluntary blood donations unaffected; where blood supply becomes a commercial activity, donors feel less responsibility to continue donating it. Hence, monetary compensation leads to a *reduction* in voluntary supply. This result, which contradicts economic reasoning, cites economic reasons for organizing blood donations as a gift.

Finally, the prohibition of markets for moral reasons might have unintended side effects that must be examined. One important aspect is that the prevention of markets gives way to the emergence of *illegal markets* that have consequences usually seen as socially and individually negative. Such markets emerge when not all actors submit to the morally demanded behavior. This can be observed not only in the case of (illegal) markets for organs. The prohibition of prostitution undermines the protection of illegal sex industry workers and makes them especially vulnerable; the prohibition of certain narcotics leads to the emergence of drug dealers, crime and serious problems for public health. Through these effects, the morally motivated prohibition of markets shows profound moral and economic dilemmas.

Altruism

The fourth type of morally motivated behavior relevant for markets is "altruism." Altruism is defined by a voluntary self-commitment to behavior based on value that inflicts costs on oneself for the benefit of others. Altruism has several forms. The most economically significant one is the voluntary inclusion of otherwise externalized costs. This is the core arena of business ethics, fair trade and socially conscientious consumer choices. If companies voluntarily abstain from hiring child labor, pay living wages and protect the natural environment in which they operate their plants, they increase their costs (i.e., their shareholder's or customer's costs) for the benefit of stakeholders like their employees and neighborhood communities. By now, voluntary codes of conduct have led to the establishment of an international standard on social accountability (SA 8000). Some large retailers purchase only from manufacturers that comply with the SA 8000 standard (Biggart/Delbridge 2004). This can be seen as an indicator for an increasing "moralization of markets."

It is, however, debatable to what extent compliance with standards of social or environmental accountability does indeed reflect altruism. Companies might simply attempt to avoid conflicts with important stakeholders by complying with social accountability standards or create an image as socially conscientious businesses as an effective argument in their marketing strategies. If profit strategies motivate the compliance of companies to standards of social and environmental accountability, their behavior is not covered by the notion of altruism. While the significance of altruism in business behavior is ultimately an empirical question, two theoretical points can be made. First, the market mechanism limits the possibility of altruistic choices that cannot be turned into increased revenues. Managers in a market economy are structurally forced to orient their decisions towards profit making. Any other behavior will lead to a loss in profits and a reduction in market share. Second, the role of the market mechanism does not imply that decisions are *determined* by the market. Most organizations do have significant slack that allows for inefficient decisions without jeopardizing the survival of the company. Moreover, if one assumes that, under conditions of complexity and fundamental uncertainty of outcomes, managers cannot identify optimal strategies, the perspective of market determination of business decisions is flawed. Under such conditions managers will base their decisions on culturally legitimated conceptualizations of rationality. This constitutive role of culture allows for the introduction of ethically motivated decisions into firm behavior despite market pressures towards efficiency (Beckert 2002b).

Regardless of whether it reflects genuine altruism or not, the addition of moral considerations into the market does change the way business is conducted. Pressure to find ethically reflective strategies develops mostly as a result of investor and consumer choices. Investment fund managers might invest only in companies that have progressive policies towards gays and lesbians or that comply with standards of social accountability. An interesting example is also the rising field of Islamic banking. Here investments are only made to companies that comply with "Islamic values" (Biggart/Delbridge 2004: 39). This is a form of altruism on the investor's side if the investor must assume that his investment will have a lower return because he or she forgoes more lucrative alternative investment opportunities. Consumers show altruistic action orientations, for instance, by buying more expensive goods from a neighborhood store, instead of purchasing from Wal-Mart, because they believe in the value of having neighborhood stores. Consumer boycotts on the other hand express condemnation of certain business practices by consumers. Consumers are willing to avoid a product or store in order to support practices that comply with their values.[10]

But what are the economic consequences of such altruistic, value directed allocations of capital and consumer purchasing power? They are costly for the investor or the consumer in monetary terms. One pays a higher price for bread in the local grocery store compared to purchasing it from Wal-Mart. One does without apples from South Africa if they are produced under Apartheid conditions, even if they are a better economic value. One invests in certain mutual funds even though one expects a lower rate of return compared to alternative investment opportunities. These are counter-preferential choices if one assumes selfishness is the standard for economic choices.[11]

The story becomes more complicated once attention is shifted to the producing firms, countries and traders that are subject to the value based consumer and investor choices. A shift in allocation of investment capital and consumer purchasing power due to altruistic decision-making is beneficial only to those companies, industries or countries that are favored by the social values. It is economically detrimental to those parties which are negatively discriminated against. Looking at macroeconomic consequences, the loading of economic exchange relations with value orientations that are followed through altruistic decisions may be problematic as well. They might lead to a particularization of exchange which undermines competition. It contradicts the functional differentiation of the economy, i.e., its detachment from substantial value convictions that makes economic exchange non-discriminatory and inclusive. If decisions are based on altruism, capital is not allocated exclusively under criteria of economic efficiency. Moreover, any judgment of altruism must consider that, given the complex interrelations within the economy, effects may be highly unspecific and contaminated by unintended consequences that may outweigh their positive intentions (Luhmann 1993: 136). Boycotts may also hurt those actors whose interests shall be protected.[12] Altruism can have similar non-intended effects as the blockage of exchange does.

10 Despite these costs, it is debatable to what extent socially conscientious consumer behavior qualifies as altruism. Though its declared intention is the principle-based increase of the welfare of others, this does not exclude the maximization of one's own utility. This is the case if the well-being of alter ego forms part of the utility function of ego. This assumes, however, contrary to standard economic models, that utility functions are not independent. Following Amartya Sen (1977), such choices can nevertheless be characterized as moral behavior as long as the personal utility is not the reason for them.

11 These value-oriented allocations of money can be integrated into an economic decision-making model that demands only coherence of choices.

12 Boycotts are morally ambivalent. They might be seen as positive by society if values are expressed that find widespread acceptance. The act of boycotting products from South Africa during the Apartheid regime found broad social support. But what if investment is directed to companies upon the condition that they avoid hiring foreigners or Jews? What about boycotting Korean groceries in black neighborhoods of Los Angeles? For the moral evaluation of al-

Trojan altruism

A further way in which "morality" can enter markets I want to call "Trojan altruism." This is not a type of moral behavior, but refers to the strategic use of substantial value orientations for one's own benefit and at the cost of others. Trojan altruism is deceitful. There are several examples that stand at least under suspicion to form cases of Trojan altruism. The first one is food aid to Third World countries. Food aid increases supply in local markets, causes the depreciation of prices and thereby drives local producers out of the market. It can also contribute to a change in demand by influencing the taste of consumers and thereby decrease demand for local crops. The dependency created through the destruction of local agricultural production is at the same time beneficial to food exporting countries in the developed world.

The suspicion of Trojan altruism also plays a role in current political discourse about standards of social and environmental accountability in global production systems. Codes of social accountability are increasingly honored in business transactions with Third World suppliers. Prison labor, child labor, sweatshop working conditions and pollution of the environment are prime issues. The definition of the codes of conduct takes place mostly in the North. This opens the possibility that the enforcement of a seemingly morality based standard – for instance the policy not to buy products made through the use of child labor – is in fact a hidden enforcement of a competitive disadvantage for Third World countries, implying additional hardship for the poor. In many countries, child labor is a crucial source of family income and low wages are one of the few competitive advantages of the economies of the South. The same argument can be made with regard to standards of environmental protection. To make this point more systematically: Altruism might reflect a paternalistic definition of interests of the South[13] by people in the North that have little to do with the interests people of the South actually have. This suspicion of paternalistic definition of interests became an important dispute between NGOs from the North and the South in the anti-globalization movement in recent years.

Conclusion

What can we learn from the proposed distinction of types of moral behavior in markets? The argument pursued in this paper was that the role of morality for market outcomes is deeply ambivalent. Market-liberal objections to any type of coordination

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truism, the concrete values at stake must be considered. This presupposes a principle for the regulation of value conflicts.

13 This is parallel to Lukes (1974) third face of power.

devices but self-interest don't do justice to the problems emerging from unequal initial endowments, monopolistic market structures, external effects, free-riding and principal-agent problems. This, on the other hand, does not imply that morality based decision-making can be seen as unequivocally positive for the efficiency of market outcomes. Morality might be discriminatory to outsiders, hinder the functional differentiation of the economy and block markets that would be beneficial for at least some market participants.

These profound ambivalences disqualify all positions of unqualified rejection of morality as an action orientation of market participants. However, they also pinpoint to benefits of demoralization of market exchange. The typology introduced identifies different implications of morality for the efficiency of market outcomes for the different types. Mostly positive effects can be attributed to cooperation, i.e., moral behavior in the context of problems associated with free-riding and principal-agent situations. In these situations, ethical codes are one mechanism by which market failure can be avoided and more efficient outcomes achieved. By contrast, exchange blockages appear profoundly ambiguous, as they represent values in a society. As an ideal type, their enforcement is independent from their consequences for personal utility and macroeconomic welfare effects. They can nevertheless contribute to economic well-being, for instance by blocking the purchase of political decisions (corruption). They can, on the other hand, prevent the functional differentiation of the economy and might result in unintended consequences like the emergence of illegal markets. While it might be politically decided to reduce the scope of markets by legally blocking the exchange of certain goods and services, these non-intended consequences must be reflected in any consequentialist moral judgment of such restrictions. Altruism transports substantial value orientations into the realm of the economy as well. Its evaluation depends on the values that are enacted but also on the unintended effects it causes. Altruism can give moral justification to redistributive policies and thereby help to integrate the issue of equity into a market economy. Group solidarity has ambivalent consequences too. It can lead to the cartelization of market exchange and it excludes outsiders. On the other hand, it can also help stabilize markets, reduce power differentials between different social groups and help to pool resources for investments that would otherwise be unobtainable. Finally, Trojan altruism is a parasitic use of morality that does not find moral legitimation. Its effects are clearly negative, based on the criterion of Pareto efficiency, since it aims at gaining advantages at the cost of the other side of the exchange.

While the typology does not lead to unambiguous distinctions with regard to the welfare effects of the four specific forms of commitment based behavior, it does provide insights into the specific problems which are characteristic for the different types. Moreover, it indicates that the moral embeddedness of the economy is not a dysfunctional relic from premodern times but rather an integral part of the efficient functioning of markets. At the same time, the role of morality in the market cannot be reduced to its economic functions. The observation of inefficiencies due to moral orientations of actors does not itself give justification to condemn these expressions of value rationality. Instead, they demonstrate that economies work within the context of a moral universe that itself cannot be reduced to criteria of economic efficiency. The ambivalence of morality for market outcomes is due to the fact that markets necessarily operate within a social field in which economic and non-economic values merge. This can be beneficial to economic outcomes or inhibit economic efficiency. The theoretical insight emerging from the ambivalent role of morality on markets is that no economy will ever be "only economic" even if this inhibits some of its economic functions.

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