

Markets and Moral Formation: It's Time for an Empirical Turn

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To date, arguments about how markets morally form us have tended to be theoretical in nature, relying on anecdotes and contestable philosophical interpretations of economic concepts and practices. This has often resulted in the two sides speaking past each other. This essay argues that it is time to move the discussion to more empirical grounds, by engaging behavioral research on decision-making in different economic contexts. Instead of asking whether markets corrupt or support our character, this research enables us to ask—and begin to answer—“under what conditions do markets work against virtue?” This essay illustrates this through a consideration of scholarship available on the moral influence of reputation and competition.

Introduction

The argument over how markets morally form us will be well known to the readers of this journal. On the one hand, critics worry that markets corrupt our character, making us more selfish, shallow, and utilitarian. On the other hand, defenders argue that markets do the opposite, and encourage us to become more honest, fair, and industrious. This is a long-standing debate between two well-established camps, and it doesn't seem to be going out of style any time soon.

Rather than critique the content of these arguments, this essay aims to draw attention to their genre and the styles of reasoning they employ. How do market defenders and critics generally try to convince their audiences of the truth of their side? That is, to what standards and sources of evidence do they appeal? As the first section of this essay explains, arguments about how markets morally form us have tended to be theoretical in nature, relying on anecdotes and contestable philosophical interpretations of economic concepts and market practices. This essay suggests that these methods explain some of the intransigence and repetitive nature of the discussion thus far.

Following this, the second section of this essay proposes that it is time to move the discussion to more empirical grounds, by engaging recent work in the behavioral sciences on how different economic settings affect our decision-making. Although social scientists do not describe their research as addressing virtue or moral formation, this literature is rich with implications for those seeking to understand how markets form us over time. Above all, it indicates that the abstract question of how “the market” forms us is unanswerable as posed, because markets vary in their moral influences, according to their design.

This essay’s third and final section begins to illustrate the difference that engaging empirical research can make by considering scholarship on two mechanisms through which markets are often said to affect our character: reputation and competition. Here, research suggests market forces work to encourage us to act ethically (and thus arguably to develop virtue, over time) only under certain conditions. Specifically, both reputation and competition will work to support moral behavior among sellers when buyers care about that behavior, can observe that behavior, and can offer feedback by taking their business elsewhere. In this sense, markets tend to support virtuous actions when they are more transparent and competitive (by hosting multiple buyers and sellers). However, social framing emphasizing competition and the threat of loss tends to encourage unethical behavior. Engaging these findings offers one way to advance debates on the morality of markets, including by opening up reflection on how to strategically respond to their variable moral influence. The literature surveyed on competition, for example, suggests a significant role for government in implementing the conditions necessary for market forces to crowd in virtue, and underlines the importance of scholarship in business ethics on how to cultivate moral cultures within firms.

I. The Largely Theoretical Nature of The Arguments Thus Far

To date, and with only a few exceptions, the arguments for and against markets as moral contexts have both tended to be philosophical in nature, and to rely heavily on thought experiments and anecdotes.¹ Indeed, this was the dominant mode

¹ A recent notable exception is Glenn Butner’s *Work Out Your Salvation: A Theology of Markets and Moral Formation* (Fortress, 2024). In this, Butner draws on behavioral economics to argue that markets have a variable influence on our character (and makes the theological argument that when this influence is positive, this can be read as “God’s concurrent work through common grace”)

of reasoning on this theme until quite recently, and for entirely understandable reasons. From Aristotle to Montesquieu, for centuries scholars voicing concerns about the corrupting effects of commerce or celebrating its benefits had to do so without reference to what we now consider empirical research. Instead, they aimed to use reason and narrative to offer a picture of social life that the reader would find plausible and compelling based on how it resonated with the reader's own sense of the world. For Aristotle, this meant articulating the "unnatural" nature of what he called wealth-getting; for Rousseau, the concern that commerce erodes our natural freedom by making us overly dependent on others. Adam Smith stands out as someone who sought an early version of sociological and historical accuracy, with his ongoing interest in observing the different national characters of diverse nations (with the especially commercial Dutch frequently receiving his particular commendation). Montesquieu did something similar, citing the industrious character of the citizens of Marseilles in support of his claim that commerce civilizes.² Even so, Smith's and Montesquieu's comparative analyses were ultimately anchored in theoretical reflections reliant on narrative illustrations of their own devising, such as Smith's poor man's son who is made miserable by his ambitious pursuit of wealth, or the worker stultified over a lifetime of repetitive labor.

Despite the abundance of data available today, theory plays a similarly central role in more recent arguments about how markets form us. Theologian Daniel Bell Jr., for example, has argued that markets impose impersonal and calculating forms of valuation that tutor us to view all of social life—including marriages, children, family bonds, and bodies—in terms of contracts, cost/benefit analyses, and consumer satisfaction.³ From the other side, theologian Michael Novak (sounding very much like Montesquieu) has argued,

Commerce requires attention to small losses and small gains; teaches care, discipline, frugality, clear accounting, providential forethought, and respect for regular reckonings; instructs in courtesy; softens the

(11). While *Work Out Your Salvation* does not develop an account of conditions under which markets encourage or hinder virtue, it models an empirically grounded attention to their variability that makes an important contribution to the interdisciplinary analysis called for here.

2 Montesquieu, *The Spirit of the Laws*, trans. and ed. Anne Cohler et al. (Cambridge University Press, 1989), 338, 341.

3 Daniel Bell, *The Economy of Desire: Christianity and Capitalism in a Postmodern World* (Baker Academic, 2012), 106.

barbaric instincts and demands attention to manners; teaches fidelity to contracts, honesty in fair dealings, and concern for one's moral reputation.⁴

In this journal, Rachel Kotkin, Joshua Hall, and Scott Beaulier have made the case that markets support virtue because “ethical behavior is good for long-run profitability,” illustrating this with examples drawn from Barnum and Bailey's Circus, Whole Foods, and BB&T Bank.⁵

Although authors regularly use such anecdotes and case studies, their arguments for or against markets as moral contexts generally rest on contestable readings of key aspects of life in markets, such as wage labor (e.g., as effectively slavery or empowering), exchange (as cold and calculating or aimed at reciprocity), and private property (as alienated labor or natural to humankind and just). If these readings are too sweeping or strident, they are likely to elicit more irritation than recognition from readers who do not yet already agree. Indeed, philosophical moves that appear natural and may even be taken for granted by those working within a specific framework may appear arbitrary to those approaching from another perspective, and perhaps even biased.

As one illustration, consider the contours of philosopher Alasdair MacIntyre's influential argument that markets militate against virtue, and some of the responses it has elicited. On MacIntyre's reading, market activity is necessarily instrumental in nature and oriented toward the “external good” of money and profit rather than toward intrinsic (and true) goods, and as a result merely teaches the kinds of traits that are useful for realizing these lesser and external goods.⁶ MacIntyre contrasts these traits with true virtues, understood as the excellences of character useful for achieving the real goods realized within “practices,” or “socially cooperative [forms of] human activity” that are oriented toward their own internal goods.⁷ Although his reasoning is usually less explicit on this front, MacIntyre's assessment of markets rests on the further assumption that extrinsic and intrinsic ends are necessarily in tension, and cannot coexist peaceably in the

4 Michael Novak, *Catholic Social Thought and Liberal Institutions: Freedom with Justice*, 2nd ed. (Transaction, 1989), 179.

5 Rachel Kotkin, Joshua Hall, and Scott Beaulier, “The Virtue of Business: How Markets Encourage Moral Behavior,” *Journal of Markets & Morality* 13, no. 1 (2010): 45–58, at 47.

6 Alasdair MacIntyre, *After Virtue: A Study in Moral Theory*, 3rd ed. (University of Notre Dame Press, 1981), 190–91.

7 MacIntyre, *After Virtue*, 187.

same activity without the one impinging upon the other. From such a perspective, when practices are brought into the market, the instrumental nature of market activity corrodes both the practices and the virtues they teach, by displacing desires for their true goods with a baser desire for profit. As MacIntyre argues, “First, what agents learn from both success and failure in market transactions is the importance of increasing whatever money they have, by selling for as much as possible, by buying as cheaply as possible, by saving, and by investing, and this no matter how much money they may have already. So they learn to want more and then more and then more and become consumed by their own desires.”⁸

At its core, this critical account of how markets form us rests on MacIntyre’s basic description of the “reasoning that informs transactions in the market,” which he often explains with reference to game theory.⁹ But what about those who contest this description of exchange as necessarily driven by an instrumental rationality that works against virtue?

Responding directly to MacIntyre, Luigino Bruni and Robert Sugden reject the claim that market exchange itself cannot qualify as a true practice. Working from the tradition of civil economy which focuses on reciprocity in economic life, Bruni and Sugden argue that “the market is certainly a coherent and complex form of socially established cooperative human activity” with its own internal standards of excellence, and which aims at the good of “mutual benefit.”¹⁰ In their view, these standards of excellence “incline” market participants to a set of “market virtues” that includes traits such as trust, trustworthiness, and respect for others’ preferences.¹¹ Moreover, Bruni and Sugden suggest that exchange can be viewed by both parties as a “genuinely social interaction,” characterized by virtue as well as by instrumental rationality—that is, that the two motivations need not be in competition.¹²

8 Alasdair MacIntyre, *Ethics in the Conflicts of Modernity: An Essay on Desire, Practical Reasoning, and Narrative* (Cambridge University Press, 2016), 109. Elsewhere, he writes that “the financial sector as a whole . . . [is] a school of bad character.” Alasdair MacIntyre, “The Irrelevance of Ethics,” in *Virtue and Economy: Essays on Morality and Markets*, ed. Andrius Bielskis and Kelvin Knight (Routledge, 2016), 7–21, at 12.

9 MacIntyre, *Ethics in the Conflicts of Modernity*, 184; see also 101–5 and 184–89.

10 Luigino Bruni and Robert Sugden, “Reclaiming Virtue Ethics for Economics,” *Journal of Economic Perspectives* 27, no. 4 (2013): 141–64, at 151.

11 Bruni and Sugden, “Reclaiming Virtue Ethics,” at 153 and 143.

12 Luigino Bruni and Robert Sugden, “Fraternity: Why the Market Need Not Be a Morally Free Zone,” *Economics and Philosophy* 24 (2008): 35–64, at 36

From another angle, business ethicist Jooho Lee responds to a MacIntyrean critique of business by contesting his understanding of profit-seeking. While acknowledging that corporations must pursue profits and that this is indeed “often an immoral activity,” Lee argues that “it need not be.”¹³ Specifically, Lee argues that “profit-seeking need not have profits as its ultimate end”—or, put slightly differently, that firms are not required to subordinate all other human values and ends to the pursuit of maximal gain. Instead, he suggests, profit-seeking can be aimed at “engaging the market process to incentivize certain ways of allocating resources that promote human flourishing.”¹⁴ Understood in this manner, profit-seeking appears as a kind of communal deliberation over how the world should be, and even as “a form of political activity.”¹⁵ As a result, Lee concludes that “profit-seeking can become a MacIntyrean practice and thus compatible with virtue,” at least in some cases.¹⁶ Advancing a related argument, philosopher Christine Swanton has questioned MacIntyre’s implicit equation of profit with money, and argues that profit is a term for money as it relates to business practice that necessarily requires further specification.¹⁷ While defining profit as “shareholder gains only” or as “maximal gains” would indeed make its pursuit hostile to virtue, Swanton proposes that viewing profit as in service to a morally substantial account of the aim of business could make profit dependent on virtue.

This conversation begins to illustrate some of the problems resulting from anchoring our analyses of markets in normative and philosophically derived descriptions of market phenomena. For those disagreeing with MacIntyre’s take on the nature of exchange and profit, his unrelentingly gloomy analysis of the formative power of markets fails to convince; in return, those following MacIntyre are unlikely to be compelled by Bruni and Sugden’s, Lee’s, or Swanton’s more optimistic analyses of how markets can foster virtue.

13 Jooho Lee, “Envisioning Profit-Seeking as a Practice: On the Possibility of Managing the For-Profit Corporation with Virtue,” *Philosophy of Management* 24 (2025): 389–409, at 391.

14 Lee, “Envisioning Profit-Seeking as a Practice,” 391.

15 Lee, “Envisioning Profit-Seeking as a Practice,” 401.

16 Lee, “Envisioning Profit-Seeking as a Practice,” 391.

17 Christine Swanton, “Virtues of Productivity Versus Technicist Rationality,” in *Economics and the Virtues: Building a New Moral Foundation*, ed. Jennifer Baker and Mark White (Oxford University Press, 2016) 185–201, at 186.

II. Time for an Empirical Turn

In pointing this out, I don't mean to suggest that productive philosophical dialogue on moral formation between market critics and defenders is impossible, or that mutual learning cannot still occur. However, my proposal is that this dialogue may be significantly enriched by incorporating attention to empirical research, and above all to behavioral research on how different economic settings influence our moral decision-making. Compared to scholars of prior centuries, contemporary academics are in the relatively happier position of being able to draw on an ever-growing mountain of statistics and scientific studies to ground their claims; it is time now to take advantage of this properly, by letting available research both chasten and complexify our analyses of markets as moral contexts.

It could be argued that recent literature on markets and morality is beginning to move in this direction, insofar as a growing number of arguments about how markets form us reference insights drawn from history and the social sciences. That said, this work also illustrates the many challenges confronting attempts to use data for normative and philosophical purposes. In the first instance, there is the question of which data points to select. While market defenders can point to reduced tolerance for corruption and increased cosmopolitan attitudes when arguing that markets are good for us, for example, those arguing the opposite view cite altogether different trends—such as continued child poverty in the face of immense wealth, and rising rates of loneliness.

Following this, there is also the question of how to interpret data, once it has been selected. When making their case, more than a few scholars simply point to morally charged facts related to markets without spelling out what exactly these say about our character, and leave the formational connection to be inferred. Sometimes this is done by reasoning backward from a morally important statistic such as reduced infant mortality, or the accelerating loss of biodiversity—surely markets that produce such a good (or bad) outcome must be forming us in helpful (or unhelpful) ways? Rather than resulting in clarity about why or how markets form us, however, this line of inferential reasoning is just as likely to lead to disagreement over the causes of specific economic outcomes, and whether it is more accurate to attribute these to markets themselves or to other political or social factors. The quest to reach agreement on how markets form us is thus easily derailed by disagreement over how markets work in the first place.

Other scholarship draws on empirical research that does speak directly to character and moral formation but overgeneralizes, unreflexively conscripting individual studies to support sweeping conclusions about markets overall. This is particularly visible in work referencing the “crowding out” phenomenon, in which the introduction of a financial incentive displaces non-pecuniary forms of motivation. Literature on crowding out has been especially popularized by Michael Sandel, who used it to illustrate “the degrading effect of market valuations and exchange on certain goods and practices” and thus develop his “corruption objection” to markets.¹⁸ However, Sandel and market critics citing him generally fail to address—or even acknowledge—instances of “crowding in,” in which monetary incentives complement and reaffirm nonmarket values and motivations.¹⁹ As a result, claims that markets necessarily crowd out nonmarket values can always be countered by claims that markets do the opposite, with each side drawing on different studies.

Alongside the complexity of engaging empirical research, a large part of the problem here is the black-and-white nature of the debate, which continues to be organized around the binary question of whether markets overall are good or bad for us. This either-or framing prevents nuanced discussion of not only the ambiguity of how markets interact with our agency, but also the real variability between different markets. This is arguably visible even within scholarship by economists Ginny Choi and Virgil Storr, who have gone farther than most in trying to ground the conversation on markets and moral formation in empirical scholarship. In a recent survey of “quantitative literature on prosocial behavior as it relates to the market,” Choi and Storr explain that empirical findings are mixed.²⁰ While this leads them to acknowledge that “there is no obvious consensus that the market corrupts or enriches us morally,” Choi and Storr’s discussion throughout nonetheless focuses on the question of which finding is more prevalent, and thus more likely to be accurate. (Indeed, they conclude,

18 Michael Sandel, *What Money Can't Buy: The Moral Limits of Markets* (Farrar, Straus and Giroux, 2012), 111.

19 Samuel Bowles and Sandra Polania-Reyes, “Economic Incentives and Social Preferences: Substitutes or Complements?,” *Journal of Economic Literature* 50, no. 2 (2012): 368–425.

20 Ginny Seung Choi and Virgil Henry Storr, “The Morality of Markets in Theory and Empirics,” *Journal of Economic Behavior and Organization* 216 (2023): 590–607, at 591.

“the weight of the quantitative studies seem to support the position that the market generally encourages and promotes prosocial behavior, attitudes and orientations.”²¹⁾

In the current conversation, this either-or framing goes hand in hand with a tendency to refer to markets in the singular—as “the market”—and as if there were only one. This is also a feature of Storr and Choi’s analysis, which largely gives the reader the impression that market integration and markets are all one thing, until their final two paragraphs. There, they call into question assumptions about the homogeneity of “people’s experiences with and within (particular) markets,” observing that “a vendor in a farmers’ market and a trader on the stock market floor” are likely to have very different experiences and understandings of their role as market actors, and as a result are unlikely to “express the same attitudes and react in identical ways,” even when presented with the same scenario.²² Storr and Choi use this to call for further experimental studies on “which market institutions promote prosocial behavior and which institutions inhibit it.”²³

The question is not “whether” markets are good or bad for us, but “under what conditions.”

In fact, more than a few researchers are already answering this call. In recent decades, scholars across the social sciences have begun using experimental methods to study how individuals act in different market settings and across cultures, focusing especially on the determinants of prosocial behavior—that is, on which situational factors encourage individuals to act with fairness, trustworthiness, and generosity (and conversely, which factors elicit more opportunistic, dishonest, and selfish behaviors).²⁴ While these researchers

21 Choi and Storr, “The Morality of Markets in Theory and Empirics,” 596, 603.

22 Choi and Storr, “The Morality of Markets in Theory and Empirics,” 604.

23 Choi and Storr, “The Morality of Markets in Theory and Empirics,” 604.

24 While the focus of this essay is on scholarship speaking to the immediate influence of market design on moral behavior, a distinct but closely related line of research takes up the inverse causal relationship, examining the role that social institutions and norms governing prosocial behavior play in enabling the growth and expansion of markets, both today and historically. For a recent illustration of work examining the connection between social trust and growth, for example, see Christian Bjørnskov, “Social Trust and Patterns of Growth,” *Southern Economic Journal* 89, no. 1 (2022): 216–37; for a historical and comparative analysis of how Christian religious institutions have contributed to the social norms facilitating exchange in complex societies, see Jonathan Schulz, Duman Bahrami-Rad, Jonathan Beauchamp, and Joseph Henrich, “The Church, Intensive Kinship, and Global Psychological Variation,” *Science* 366.6466 (2019). For an argument in this journal that markets both “depend” on virtue and “function better” when participants are virtuous, see Ryan Langrill and Virgil Henry Storr, “The Moral Meanings of Markets,” *Journal of Markets and Morality* 15, no. 2 (2012): 347–62, at 352 and 348.

generally do not frame their work as speaking to virtue itself or as weighing in on the philosophical debate over how markets form us, their findings are rich with implications for that larger conversation. Unfortunately, however, these implications too often seem to be hiding in plain sight, rendered invisible by the path dependency of that debate, which continually channels discussion toward the binary question of whether markets overall are good or bad for us.

In his now classic *The Moral Ecology of Markets*, Daniel Finn argued that discussions of economic justice were derailed for many years by a similarly binary question: “Are markets just?” As he wrote there, the “yes/no” framing of this “has generated simplicities on all sides that have undercut a real dialogue on the issue” and ultimately “hurt our ability to evaluate markets from a moral perspective.”²⁵ The question of whether markets are just is not only unanswerable as posed, Finn argued, but ultimately irrelevant to real markets, which vary widely in the justice of their outcomes. Given this, it would be better to simply ask, “Under what conditions are the outcomes of markets just?”²⁶ For this, Finn proposed we use his “moral ecology” approach, which identifies multiple background factors that determine whether the outcomes of voluntary exchange will be just, such as the legal “fences” determining what sorts of activities are permitted within markets, and which essential goods and services societies decide to provide to address distributional shortcomings.

This essay proposes that it is time to do something similar for the debate over how markets form us. Specifically, it is time to stop asking whether markets overall are corrupting or morally helpful, and instead ask “Under what conditions are markets morally helpful environments?” and “Under what conditions are they morally corrupting?” While Storr and Choi are quite right to call for more economic research on the institutional determinants of prosocial behavior, we should not overlook the wealth of literature that already exists in this area. Engaging this offers a way to advance beyond the binary terms of the pro- and anti-market debate, and open up more nuanced reflection on the moral dimensions of contemporary economic life. Above all, it does so by suggesting

25 Daniel K. Finn, *The Moral Ecology of Markets: Assessing Claims About Markets and Justice* (Cambridge University Press, 2006), 103.

26 Finn, *Moral Ecology of Markets*, 108.

that there is not one single way that “the market” forms us, because there is no single and timeless market—that, instead, individual markets vary in their formative powers according to their design.

III. What Difference Does the Data Make? Two Case Studies: Reputation, and Competition

To illustrate this claim, this section examines how attending to empirical research stands to enrich the scholarly conversation on two mechanisms through which markets are often said to shape our character: reputation and competition.

Do markets encourage virtue because we desire a good reputation?

The argument that markets encourage character because customers reward virtue is a longstanding one, dating at least as far back as Adam Smith’s observation that merchants hoping to be successful must be known to be fair, cooperative, and even cheerful.²⁷ The basic assumption here is that the interpersonal nature of exchange impresses upon the entrepreneur a need to cultivate a good reputation, given that customers will not want to patronize vendors known to be dishonest, opportunistic, or otherwise ill-behaved. As a result of financially incentivizing good behavior, over time markets thus also support the development of good character itself. As one popular eighteenth-century business manual explains,

Sensing the necessity to be wise and honest in order to succeed, [the merchant] flees vice, or at least his demeanor exhibits decency and seriousness so as not to arouse any adverse judgment on the part of present and future acquaintances; he would not dare make a spectacle of himself for fear of damaging his credit standing.²⁸

More recently, this argument has been advanced by market defenders such as Deirdre McCloskey, Michael Novak, and Robert Sirico. As Sirico has put it, “Firms cannot long exist without a reputation for honesty, quality workmanship, and in most cases, civility and politeness. Given the fact that a free market depends on voluntary exchange to operate, if some of the virtues are lacking,

²⁷ For more on Smith’s treatment of reputation, see Dennis C. Rasmussen, *The Problems and Promise of Commercial Society: Adam Smith’s Response to Rousseau* (Pennsylvania State University Press, 2008), 121–22.

²⁸ Cited in Albert O. Hirschman, *Rival Views of Market Society and Other Recent Essays* (Harvard University Press, 1992), 108.

consumers are the best judge of when to end the relationship.”²⁹ In short, exchange offers customers a direct way to punish vice and reward virtue, and it is reasonable to expect that eventually this will encourage business owners to develop the upstanding character traits that their customers prefer.

While this claim is commonly found within pro-market literature, not everyone is convinced that markets so reliably reward virtue. Indeed, critics frequently allege that the market logic of “it’s just business” is regularly invoked to justify selfishness, opportunism, and even predation, and that the pursuit of profit often edges out other values. Can research help with this impasse? Do experimental studies indicate that exchange harnesses our desire for respect and fear of censure to promote ethical action, or that it encourages selfishness?

The research: Reputational effects support virtue in transparent and competitive markets.

The short answer is that market exchange does both—and that whether a concern for one’s reputation supports virtuous action depends on the circumstances, and what we might call market design. In unpacking this, let’s begin with the good news: There is considerable data to suggest that concern for one’s moral reputation can provide strong motivation to act with fairness and even generosity when making economic decisions.

This motivation reflects not only our sensitivity to social feedback on our behavior, but also the reasonable anticipation that others will offer that feedback, whether positive or negative. Experimenters conducting bargaining games have repeatedly found that when enabled to do so, players reward trading partners that they find to be trustworthy, fair, and generous, even when bestowing those rewards reduces their own gains.³⁰ This is especially the case in games allowing repeated interactions between subjects, which show that strong norms of reciprocity regularly emerge between players; as one set of researchers puts it,

29 Robert Sirico, “The Moral Basis for Economic Liberty,” in *Rediscovering Political Economy*, ed. Joseph Postell and Bradley Watson (Lexington Books, 2011), 3–26, at 11. Kotkin et al. offer a similar line of reasoning: “In economies with greater competition, consumer wants are more likely to be satisfied by the abundance of alternatives available, and the healthy competition of the marketplace requires businesses to maintain a solid reputation if long-term success is desired.” Kotkin et al., “The Virtue of Business,” 47.

30 E.g., see Steffen Andersen, Seda Ertac, Uri Gneezy, Moshe Hoffman, and John A. List, “Stakes Matter in Ultimatum Games,” *American Economic Review* 101, no. 7 (2011): 3427–39; Martin Nowak, Jaren Page, and Karl Sigmund, “Fairness Versus Reason in the Ultimatum Game,” *Science* 289, no. 5485 (2000): 1773–1775; and Virgil Henry Storr and Ginny Seung Choi, *Do Markets Corrupt Our Morals?* (Palgrave Macmillan, 2019), 205–12.

“It is the *repeated interaction which makes the difference*,” prompting players to prefer equitable distributions rather than to maximize their own gains.³¹ In turn, players also regularly retaliate against and punish trading partners they perceive as acting unfairly, even when doing so is costly and not in the player’s own best interest (this is sometimes called “altruistic punishment”).³² Interestingly, this holds true even when the punishing player is simply a third party observer, and not themselves the victim of the perceived unfairness.³³

Perhaps predictably, experiments also confirm that receiving negative social feedback does encourage more fair and generous behavior over time, and that this is true whether the feedback is monetary or merely verbal.³⁴ Moreover, players also show more initial fairness in games with multiple rounds than in single-round games or games in which punishment is not possible, which suggests that the mere possibility of negative responses already has a deterrent effect on selfish behavior.³⁵ As one set of researchers concludes, “Reputational incentives indeed discipline the selfish types among the agents,” by encouraging them to act in more cooperative ways than they might otherwise.³⁶ Finally, studies also consistently indicate that what economists call “other-regarding” behavior is highly sensitive to “audience effects”—that is, players act more fairly when their behavior is observed and when they feel they have agency over outcomes, and thus presumably anticipate that others will consider them responsible for those outcomes. In turn, players act more selfishly when they are granted anonymity

31 Armin Falk, Simon Gächter, and Judit Kovács, “Intrinsic Motivation and Extrinsic Incentives in a Repeated Game with Incomplete Contracts,” *Journal of Economic Psychology* 20 (1999): 251–84, at 273, emphasis in original.

32 On altruistic punishment, see Ernst Fehr and Simon Gächter, “Altruistic Punishment in Humans,” *Nature* 415 (2002): 137–40.

33 For helpful introductions to this literature up until roughly 2000, see Ernst Fehr and Simon Gächter, “Fairness and Retaliation: The Economics of Reciprocity,” *Journal of Economic Perspectives* 14, no. 3 (2000): 159–81; Ernst Fehr and Urs Fischbacher, “Third Party Punishment and Social Norms,” *Evolution and Human Behavior* 25, no. 2 (2004): 63–87; and Alvin Roth, “Bargaining Experiments,” in *Handbook of Experimental Economics*, ed. John H. Kagel and Alvin E. Roth (Princeton University Press, 1995), 253–348, at 264.

34 E.g., see Bowles and Polanía-Reyes, “Economic Incentives and Social Preferences,” 409–10; David Masclet, Charles Noussair, Steven Tucker, and Marie-Claire Villeval, “Monetary and Nonmonetary Punishment in the Voluntary Contributions Mechanism,” *American Economic Review* 93, no. 1 (2003): 366–80; and Alvin Roth, “Bargaining Experiments,” in *Handbook of Experimental Economics*, ed. John H. Kagel and Alvin E. Roth (Princeton University Press, 1995), 253–348, at 259.

35 For an overview of how reputation can serve as “a powerful amplifier of the efficiency enhancing effect of reciprocity,” eliciting more cooperative behavior even when agents would prefer to act selfishly, see Ernst Fehr, Martin Brown, and Christian Zehnder, “On Reputation: A Microfoundation of Contract Enforcement and Price Rigidity,” *The Economic Journal* 119 (2009): 333–53, at 337. See also David Cooper and John Kagel, “Other-Regarding Preferences: A Selective Survey of Experimental Results,” in *Handbook of Experimental Economics*, vol. 2, ed. John Kagel and Alvin Roth (Princeton University Press, 2015), 217–89, at 220 and 244.

36 Fehr et al., “On Reputation,” 338.

and when responsibility for unfair outcomes is unclear, or diffused (and when, as a result, players might not expect to be considered responsible for any negative outcomes).³⁷

What is the upshot of this desire to be perceived as fair and trustworthy, for markets? In combination with our propensity to offer feedback and our sensitivity to that feedback, it indicates that markets can and do present strong social and financial incentives to be on our best behavior, especially when we know that interpersonal interactions will be repeated. This is perhaps most obvious when the interactions are between individuals—dentists and their patients, say, or dogwalkers and dog owners, or bakery employees and their regular customers—who quite naturally see their market exchange as embedded within a social framework. In such situations, both parties have every reason to act with honesty, fairness, and even courtesy. That said, reputation also incentivizes ethical behavior even when the interactions are not face-to-face: Research indicates that corporations known for maintaining high moral standards, for example, are able to charge higher prices for their goods.³⁸ In turn, the scandal of being caught engaging in unethical behavior can significantly impact a firm's bottom line, not least when consumers and suppliers express their disapproval by taking their business elsewhere.³⁹

While the profitability of having a sterling corporate reputation illustrates the power of reputation to encourage virtuous action, it also points toward the limitations on that power. Enron, Volkswagen, Theranos, and other prominent cases of corporate misconduct and fraud serve as a reminder that reputational incentives are not a perfect prophylactic against unethical behavior. Moreover, the financial penalties that consumers mete out when firms act unethically vary according to the behavior, and thus the ability of reputation to deter misconduct is weaker in some areas than in others. While the costs of reputational losses are often quite high in response to consumer fraud, for example, penalties tend to be lower for environmental violations and “when the harmed parties do not have

37 E.g., see Elizabeth Hoffman, Kevin McCabe, and Vernon Smith, “Social Distance and Other-Regarding Behavior in Dictator Games,” *American Economic Review* 86, no. 3 (1996): 653–60, and more recently, Joy Buchanan, Elie Demiral, and Ümit Sağlam, “Effort Transparency and Fairness,” *Public Choice* 202 (2025): 611–26; for an introduction to studies on this, see Cooper and Kagel, “Other-Regarding Preferences,” 244–53.

38 Thomas Noe, “A Survey of the Economic Theory of Reputation: Its Logic and Limits,” in *The Oxford Handbook of Corporate Reputation*, ed. Michael Barnett and Timothy Pollock (Oxford University Press, 2012), 114–39, at 135–37.

39 Jonathan Karpoff, “Does Reputation Work to Discipline Corporate Misconduct?,” in *The Oxford Handbook of Corporate Reputation*, ed. Michael Barnett and Timothy Pollock (Oxford University Press, 2012), 361–82.

ongoing business relationships with the firm.”⁴⁰ This raises the problem of when wronged parties are effectively “outside” a given market exchange (by suffering from externalities, say), and thus not in a position to provide negative feedback to a firm; in such situations, wronged parties are at the mercy of others—such as customers—to convey disapproval and punish wrongdoing.

But for this to work, customers and the wider public need to be able to observe or otherwise know about the behavior in question. Sometimes this is simply not possible. The scale and complexity of modern commerce make information asymmetries (where one party in a transaction has more knowledge than the other) common. Such imbalances disable the social feedback required for reputation to incentivize virtuous action, as firms and individuals will reasonably anticipate no disciplinary responses for unethical choices. By the same token, reputation incentives will also be weak in situations where unethical behavior *is* visible but where customers and others cannot provide feedback because they lack alternative options, as happen with monopolies. It is this protection from negative feedback that is ultimately the problem; as one set of researchers studying cooperation observe, even in situations where interactions are not repeated and parties cannot build a reputation, “cooperation flourishes if altruistic punishment is possible, and breaks down if it is ruled out.”⁴¹

What are we to make of this for the larger debate over how markets form us? The takeaway here is that both sides are right: Markets can and do channel our desire for approval and fear of censure in morally helpful ways, but they also present plenty of opportunities to act on our baser instincts. As a result, the real question is not *whether* reputation works to support character in markets, but *when* it does so, and in *which* sorts of markets. Available research suggests that the key factors for this are transparency and options (or, competition): Markets in which parties can observe each other’s actions and are empowered to provide social and financial feedback on those actions are more likely to host virtuous conduct than those in which this is not possible.

40 Karpoff, “Does Reputation Work to Discipline Corporate Misconduct?,” 361.

41 Fehr and Ga’chter, “Altruistic Punishment in Humans,” 137.

Does competition crowd out virtue, or crowd it in?

A related takeaway emerges from scholarship on the variable moral impact of competition, which is the condition that provides market actors with the options they need in order to provide moral feedback to one another. Indeed, markets are considered competitive when they host enough buyers and sellers that no single party or group can control the market (and, according to most definitions, when all parties have access to information about the goods for sale, and where there are no barriers keeping new firms from entering the market). This is sometimes explained as situations in which there is no single price “maker” that can unilaterally set the terms for others, and instead all are “takers” of prices set by supply and demand. In most cases this is a desirable goal; markets that are competitive tend to generate higher wages for workers, lower prices for consumers, and more innovative and higher quality goods and services.⁴² To this, market champions also add the further claim that competition is morally helpful because it provides a further incentive for virtue. In contrast, however, critics hold that competition is significantly to blame for the corrupting effects of markets. What are the arguments on each side, and how can engaging empirical research advance the dialogue?

The basic critical claim is that the financial demands of competition pressure firms into a moral “race to the bottom.” In competitive markets, firms quite naturally fear that earning lower profits than their competitors will keep them from growing, and perhaps will even spell their extinction. Such a situation tutors firms to cut costs and pursue profit above all else, including values.⁴³ The main problem here is when competing firms in an industry choose to engage in unethical behavior that reduces costs or raises profits, and which then reduces prices in a market overall; this places intense pressure on the remaining firms to adopt the sanctioned behavior as well. Andrei Shleifer illustrates how this works in a series of cases including child labor, paying bribes, and dishonest accounting,

42 There are a number of exceptions to this, above all in markets where informational asymmetry is dangerous, such as in the pharmaceutical industry or the practice of medicine. In these cases, licensing regulations that impose barriers to entry—and thus make a given market less competitive—are important to ensure a minimum standard of quality.

43 This view of competition’s moral impact can be found, e.g., in Albino Barrera, “Globalization’s Shifting Economic and Moral Terrain: Contesting Marketplace Mores,” *Theological Studies* 69 (2008): 290–308.

explaining that “the imperative of commercial survival” pushes firms to engage in such unethical behavior even when the “managers, boards, or shareholders of companies are convinced that it [the behavior] is bad.”⁴⁴

Critics quite reasonably worry that the pressure imposed by competition is also morally corrosive, as the individuals involved become accustomed to and rationalize their unethical behavior. Steven McMullen offers animal agriculture as one illustration of this in practice. Over the past century, industrialization has dramatically altered every aspect of animal farming, from breeding to slaughtering practices, in ways that have significantly decreased animal welfare. Unfortunately, the highly competitive nature of the industry—and the low profit margins it accordingly generates—limits the ability of ethically minded producers to resist these changes; farmers “are in no position to innovate with more humane production techniques unless they produce cost savings.”⁴⁵ Rather than lamenting this, however, McMullen notes that “official statements by producers have defended the changing practices in moral terms, reflecting a change in moral norms, both in word and behavior.”⁴⁶ As a result, animal farming appears to be one area where the pressures of competition have degraded the moral sensibilities of an entire industry.

In contrast, market defenders regularly argue that competition has the opposite effect. In this journal, Jeffrey Haymond has gone so far as to propose that competition be recognized “as a form of God’s common grace,” given that it “provides institutional incentives to constrain market participants from predation and exploitation, while encouraging social cooperation and mutually beneficial exchange.”⁴⁷ Key for such arguments is the fact that competition provides customers with choice, and thus with the agency to reward and incentivize virtue, and to punish and discourage vice. (As Haymond writes on this latter point,

44 Andrei Shleifer, “Does Competition Destroy Ethical Behavior?,” *American Economic Review* 94, no. 2 (2004): 414–18, at 418, 417.

45 Steven McMullen, *Animals and the Economy* (Palgrave Macmillan, 2016), 87.

46 Steven McMullen, “When Does Market Activity Undermine Morality?,” paper presented at the Southern Economics Association Conference, Austin, Texas, 2021.

47 Jeffrey Haymond, “Common Grace and the Competitive Market System,” *Journal of Markets and Morality* 19, no. 1 (2016): 79–98, at 79.

“Dishonest and untrustworthy business owners are punished in a competitive market by customers ‘voting with their feet.’”⁴⁸) According to this argument, markets support our character because virtue confers a competitive advantage.

One variation of this claim is often traced to the work of economist Gary Becker, whose *The Economics of Discrimination* argued that competition punishes and thus may discourage employment discrimination based on race. Becker reasoned that if discrimination reduces the wages of workers of a specific minority, discriminatory employers trying to avoid hiring that minority will pay higher labor costs than they would otherwise, and will therefore be at a competitive disadvantage (unless their customers share their “taste” for discrimination and are willing to subsidize it; the following section further addresses the key role played by consumer preferences). Becker speculated that these higher costs constitute a penalty for discrimination that, over time, could work to reduce its practice.⁴⁹ This argument—sometimes summed up as the claim that “the market motivates businesses to avoid unfair discrimination”—is regularly featured in economic curricula and in literature defending capitalism.⁵⁰ Illustrations of this in practice include the objection of Southern streetcar companies to segregation on the grounds that separate cars would increase costs and reduce profits.⁵¹

Where Becker’s thesis was that market forces themselves would punish discrimination through prices, other arguments on behalf of competition focus on the interpersonal nature of exchange and the role of customers in intentionally rewarding entrepreneur’s virtuous choices. This is central to Kotkin et al.’s analyses of the cases of Barnum and Bailey’s Circus, Whole Foods, and BB&T Bank in this journal.⁵² With regard to Barnum and Bailey’s Circus, Kotkin et al. explain that circuses at the time were often “run in an underhanded manner”

48 Haymond, “Common Grace and the Competitive Market System,” 84.

49 Gary Becker, *The Economics of Discrimination: An Economic View of Racial Discrimination*, 2nd ed. (University of Chicago Press, [1957] 1971).

50 Linda Gorman, “Discrimination,” *Encyclopedia of Economics*, 2nd ed., www.econlib.org/library. See also Milton Friedman with Rose Friedman, *Capitalism and Freedom: 40th Anniversary Edition* (University of Chicago Press, 2002), 108–11. Other examples include Storr and Choi, *Do Markets Corrupt Our Morals?*, 172–73, and Jason Brennan, “How Market Society Affects Character,” in *The Impact of the Market on Character Formation, Ethical Education, and the Communication of Values in Late Modern Pluralistic Societies*, ed. Jürgen von Hagen et al. (Evangelische Verlagsanstalt, 2020), 73–92.

51 E.g., Gorman, “Discrimination,” citing Jennifer Roback, “The Political Economy of Segregation: The Case of Segregated Streetcars,” *Journal of Economic History* 56, no. 4 (1986): 893–917.

52 For a related argument focusing on competition and reputation, see Langrill and Storr, “The Moral Meanings of Markets,” 355–57.

and known for cheating customers and hosting petty crime.⁵³ Barnum and Bailey sought to distinguish their venue by taking great pains to ensure that customers were treated fairly, and to monitor and prevent crime. Customers responded enthusiastically: Barnum and Bailey's Circus was successful, and their more honest practices eventually raised standards across the industry.⁵⁴ Kotkin et al. argue that in a similar way, both BB&T Bank and Whole Foods have used high ethical standards to distinguish their corporate identities in their respective industries, and that their long-term success can be attributed to the competitive advantage earned by their ability to meet "consumer demands for integrity."⁵⁵

What distinguishes these cases from animal farming, where competition appears to undermine moral norms? Can research help us say more about when competition rewards virtue, and when it crowds it out?

The research: Competition crowds in virtue when consumers share a value and have options and knowledge, but competitive social framing also cues selfish behavior.

Experimental research on the moral impacts of competition itself is limited but growing. Reflecting specifically on Becker's thesis that competition would punish social discrimination, Choi and Storr observe that although "many economists seem to take for granted" that competition has this effect, there is "a surprising dearth of empirical studies that test" the theory.⁵⁶ This may be because Becker's thesis presumed perfect information and perfect competition and thus addressed markets at too high a level of generality, or because discrimination itself is a less common research subject. Fortunately, studies are emerging which assess the impact of competition on other forms of moral decision-making. This body of work is still in its infancy, and it behooves us to be cautious when generalizing from individual studies, given the wide variability in experimental design (with studies varying in how they simulate competition and measure moral behavior, for example).⁵⁷

53 Kotkin et al., "The Virtue of Business," 49. Barnum and Bailey's circus is also a central case in the argument of John E. Mueller, *Capitalism, Democracy, and Ralph's Pretty Good Grocery* (Princeton University Press, 1999).

54 Kotkin et al., "The Virtue of Business," 50.

55 Kotkin et al., "The Virtue of Business," 56.

56 Choi and Storr, "The Morality of Markets in Theory and Empirics," 604.

57 Christoph Huber, Anna Dreber, Jürgen Huber, et al., "Competition and Moral Behavior: A Meta-Analysis of Forty-Five Crowd-Sourced Experimental Designs," *Proceedings of the National Academy of Sciences* 120, no. 23 (2023): 1–10.

Despite such caveats, it may be possible to provisionally identify a set of conditions under which ethical behavior will be profitable, and thus competition is more likely to incentivize and reinforce that behavior. The first of these is when the behavior or moral standard is already valued or preferred by consumers in a given market.⁵⁸ To an extent, the importance of consumer preferences is largely intuitive, and indeed already identified as necessary even within more theoretical reflections on competition, including Becker's work on discrimination.⁵⁹ This intuition is borne out in experimental work; as one set of researchers conclude, "When consumers are willing to pay more when the supplier stands for their values, competition fosters ethical behavior."⁶⁰ (Also key here, of course, is this willingness to pay: The premium for more ethical options must be affordable for consumers, whose preferences for ethical alternatives tend to go down as prices go up.⁶¹)

However, consumers' willingness to pay, alone, is not enough; in addition, consumers must also have ready access to reliable information about the practices of various producers, and to be able to distinguish between ethical and unethical sellers. The more costly this information is to access, the fewer the consumers that will act on that information.⁶² In turn, firms are likely to respond to consumers' values "only when their behavior is publicly observable by the buyer."⁶³ McMullen explains that this is part of the problem with the animal

58 E.g., see Mathias Dewatripont and Jean Tirole, "The Morality of Markets," *Journal of Political Economy* 132, no. 8 (2024): 2655–94.

59 Becker's hypothesis focused on the role of unethical consumer preferences in enabling unethical behavior among producers; as noted earlier, his theory held that discriminatory employers will incur a cost for their discriminatory hiring preferences unless their customers share their "taste" for discrimination, in which case discriminatory consumers will be willing to subsidize the higher production costs by paying higher prices. Focusing on the connection between morally laudable consumer preferences and producer behavior, Kotkin et al. argue, "Because individuals as consumers want to support ethical behavior, if individuals are ethical, markets will tend to enhance, rather than retard, ethical behavior." Kotkin et al., "The Virtue of Business," 45, emphasis in original.

60 Dewatripont and Tirole, "The Morality of Markets," 2688. Dewatripont and Tirole's assumptions include that suppliers and stakeholders care about the moral outcomes of their choices, that the marginal cost of ethical choices is proportional to output, and that prices are flexible; under these conditions, they argue, "What determines equilibrium ethics in a market is then the set of ethical urges of the players, not the intensity of competition," and as a result, "it is ill-advised to blame the market for immoral behavior and to question . . . competition through trade without specifying in detail the nature of competition" (2691). See also Björn Bartling, Roberto Weber, and Lan Yao, "Do Markets Erode Social Responsibility?," *The Quarterly Journal of Economics* 130, no. 1 (2015): 219–66, which concludes that because many buyers and sellers will voluntarily share the extra cost of preventing harmful externalities even when this is not necessary, "fair or moral behavior can persist in competitive market exchange." However, Bartling et al. note that "the extent to which market participants internalize social impacts thus varies and may be influenced by factors such as market characteristics, production technologies, and culture" (221–22). See also Roberto Weber and Sili Zhang, "What Money Can Buy: How Market Exchange Promotes Values," CESifo working paper, no. 10809 (2023).

61 Bartling, Weber, and Yao, "Do Markets Erode Social Responsibility?," 222.

62 Bartling, Weber, and Yao, "Do Markets Erode Social Responsibility?," 222.

63 Weber and Zhang, "What Money Can Buy," 5.

agriculture industry, where complex supply chains and the absence of regulations governing product labeling effectively leave consumers in an “information void.”⁶⁴ Given this, producers have little incentive to incur the extra costs to use more humane practices, as those who do may not be able to effectively communicate the value of their higher prices to consumers, and will thus be at a competitive disadvantage.⁶⁵

Finally, consumers also need access to enough alternative options so that they can act so as to transmit feedback to producers on their moral choices. In a sense this is somewhat circular, and amounts to the observation that for competition to promote virtuous action, a market must in fact be competitive; monopolistic markets (or monopsonistic markets, with only one purchaser) leave consumers (or sellers) at the mercy of those with market power. However, this conclusion coincides with the earlier noted finding that selfish behavior is only curbed in situations where negative feedback and altruistic punishment are possible, and not when these are ruled out. Only when these three conditions are met—when consumers already value a moral practice or standard, have knowledge of producers’ practices, and have options to take their business elsewhere—does competition enable customers to incentivize firms to act ethically. When these are not in place, competition is more likely to function as Shleifer predicts, and to erode respect for norms that are a threat to a firm’s bottom line. Among other implications of this for the wider conversation on competition, this indicates a significant role for government in implementing these conditions—through antitrust laws ensuring that markets are appropriately competitive, for example, and measures aimed to ensure that consumers have reliable access to information about producers’ practices.

The discussion thus far has focused on how consumers can shape corporate behavior through the forces of supply and demand; a somewhat different line of research sheds light on the moral influence of competitive economic contexts more generally. This research examines the way that social framing shapes agents’ perceptions of their environments and options, and the decisions that they make. As it turns out, contextual framing that emphasizes competition

64 McMullen, *Animals and the Economy*, 51.

65 McMullen, *Animals and the Economy*, 53.

consistently elicits more self-interested behavior than does framing emphasizing cooperation; understood in this more social sense, competition appears more straightforwardly problematic.

This is one of the takeaways of a number of studies involving the Prisoner's Dilemma game, in which two subjects who are unable to communicate must choose between "cooperating" or "defecting." (While mutual cooperation yields greater gains for both players, defecting is in each player's own individual best interest.) As it turns out, cooperation rates vary according to how researchers label the game itself and the choices they present to subjects. Subjects are more likely to cooperate when games are framed as social interactions and when the term "cooperate" is used, and less likely to cooperate when labels emphasize competition. This is a finding shared across diverse studies. In one, the game was variously identified as a "Trust Game" or "Cutthroat Game"; in another, a "Community Game" or "Wall Street Game."⁶⁶ In other studies, researchers explained the game to participants either in terms of a social exchange or political negotiation, on one hand, or as economic bargaining or a business transaction, on the other. In all these cases, subjects faced identical options but cooperated less when receiving the second framing, emphasizing economic competition.⁶⁷

Labels have been found to exert similar influence over subjects' behaviors in other bargaining games as well. In one study, researchers aiming to investigate the impact of framing games in terms of competition and the imperative of "survival" told subjects that players with lower earnings would "face elimination" in later rounds.⁶⁸ They correctly predicted that subjects would be less generous and equitable with trading partners when receiving these instructions, reasoning that "greed is more easily rationalized in such a setting."⁶⁹

66 Chen-Bo Zhong, Jeffrey Loewenstein, and J. Keith Murnighan, "Speaking the Same Language: The Cooperative Effects of Labeling in the Prisoner's Dilemma," *Journal of Conflict Resolution* 51, no. 3 (2007): 431–56; and Varda Liberman, Steven Samuels, and Lee Ross, "The Name of the Game: Predictive Power of Reputations Versus Situational Labels in Determining Prisoner's Dilemma Game Moves," *Personality and Social Psychology Bulletin* 30 (2004): 1175–85.

67 C. Daniel Batson and Tecia Moran, "Empathy-Induced Altruism in a Prisoner's Dilemma," *European Journal of Social Psychology* 29 (1999): 909–24; and J. Richard Eiser and Kum-Kum Bhavnani, "The Effect of Situational Meaning on the Behaviour of Subjects in the Prisoner's Dilemma Game," *European Journal of Social Psychology* 4, no. 1 (1974): 93–97.

68 Andrew Schotter, Avi Weiss, and Inigo Zapater, "Fairness and Survival in Ultimatum and Dictatorship Games," *Journal of Economic Behavior and Organization* 31, no. 3 (1996): 37–56, at 42.

69 Schotter et al., "Fairness and Survival," 43.

While the authors were cautious when interpreting these results, they did offer that these appear to “substantiate the fact that many times, the desire for fairness may be tempered by the day to day fight to survive in markets.”⁷⁰

Also suggestive in this regard are findings from the field of psychology on how our “loss aversion” interacts with moral decision-making. Loss aversion describes the human tendency to suffer more from losses (both financial and social) than we experience pleasure from equivalent gains.⁷¹ As a result of this, research subjects are consistently more averse to losing something that is framed as already theirs—whether a sum of money or something as trivial as a mug—than they are to forgo the very same thing presented as a potential gain, and more motivated when defending or trying to keep what is theirs than when seeking additional gain. Significantly, subjects are also more willing to cheat, lie, or engage in other unethical behavior when trying to avoid a loss than when trying to secure an equal gain.⁷² Outside the laboratory, scholars have also pointed to instances where corporate misconduct “seems to have stemmed from loss aversion,” observing that firms are more likely to misrepresent their finances when they are in danger of not keeping up with their peers, for example.⁷³

In short, the fact that the threat of imminent loss appears to present a strong temptation to unethical behavior may provide a clue as to why competitive market contexts can foster unethical behavior. Indeed, another recent study specifically investigating competition found that while competition itself did not increase dishonesty, losers in a number guessing game were more likely to act dishonestly than winners. While noting that those results were still “exploratory”

70 Schotter et al., “Fairness and Survival,” 52.

71 E.g., Ulrich Schmidt, “What is Loss Aversion?,” *The Journal of Risk and Uncertainty* 30, no. 2 (2005): 157–67.

72 E.g., Gilles Grolleau, Martin Kocker, and Angela Sutan, “Cheating and Loss Aversion: Do People Lie More to Avoid a Loss?,” *Management Science* 62, no. 12 (2016): 3428–38; Simon Schindler and Stefan Pfattheicher, “The Frame of the Game: Loss-Framing Increases Dishonest Behavior,” *Journal of Experimental Social Psychology*, 69 (2017): 172–77; and Mary Kern and Dolly Chugh, “Bounded Ethicality: The Perils of Loss Framing,” *Psychological Science* 20, no. 3 (2009): 378–84. See Jessica Cameron and Dale Miller, “Ethical Standards in Gain Versus Loss Frames,” in *Psychological Perspectives on Ethical Behavior and Decision Making*, ed. David De Cremer (Information Age Publishing, 2009), 91–106, for a survey of additional literature with this finding.

73 Cara Biasucci and Robert Prentice, *Behavioral Ethics in Practice: Why We Sometimes Make the Wrong Decisions* (Routledge, 2021), 91; see also Jared Harris and Philip Bromiley, “Incentives to Cheat: The Influence of Executive Compensation and Firm Performance on Financial Misrepresentation,” *Organization Science* 18, no. 3 (2007): 350–67; Yuri Mishina, Bernadine Dykes, Emily Block, and Timothy Pollock, “Why ‘Good’ Firms do Bad Things: The Effects of High Aspirations, High Expectations, and Prominence on the Incidence of Corporate Illegality,” *Academy of Management Journal* 53, no. 4 (2010): 701–22.

and “yet to be replicated,” one of the researchers hypothesized, “Perhaps it is being disadvantaged in a competitive process that corrupts us, not competition per se.”⁷⁴

As with scholarship indicating when market pressures will crowd in ethical behavior among firms, the implications of this research for wider conversations on the moral aspects of competition are significant. For one thing, it serves as a reminder of the complexity of human behavior in markets, which is not determined by a uniform “economic rationality” shared across persons, institutions, and cultures. Instead, it illustrates the extent to which our decision-making is susceptible to contextual influences, including the labels and social framing used by those in positions of authority. More than this even: It also raises questions about the power of social framing to shape our very perceptions of our environments and thus our sense of what is reasonable and appropriate to do there, as well as to influence our actual choices. As one set of researchers studying the impact of labels on the Prisoner’s Dilemma game speculated, “The games that we felt that we were studying may have been systematically different from the games that our participants thought that they were playing.”⁷⁵

Insofar as such findings indicate that the corrosive impact of competition varies depending on the framing used in a given context, they thus underscore the importance of building ethical cultures within firms. Specifically, for example, they suggest that firms should avoid internal discourse that unnecessarily highlights the possibility of loss (it may be better to encourage employees to “go develop new business,” for example, than to urge them to “not lose the sale”). These findings also open avenues for connecting conversations on competition with scholarship in the fields of management and business ethics examining how managers can foster virtue in their employees and build healthy moral workplace cultures, which often emphasize the importance of cultivating and

74 Ozan Isler, “Does Competition Make Us Less Moral? New Research Says Yes, but Only a Little Bit,” *The Conversation*, June 5, 2023, citing his contribution to Huber et al., “Competition and Moral Behavior.”

75 Zhong et al., “Speaking the Same Language,” 433.

widely communicating a salient moral identity for a business.⁷⁶ This literature may contain useful insight into what practices are most effective at enabling businesses to resist competitive pressures to act unethically.

At the same time, the behavioral scholarship engaged here also sheds welcome light on the value of broader public discourse emphasizing social responsibility in markets, and highlights the importance of the cultural contributions made by organizations seeking to promote understandings of business and economic activity as ordered to human flourishing and the common good.⁷⁷

Conclusion

The overall goal of this essay has been to argue that engaging empirical research on economic decision-making offers one way to refine conversations on markets and moral formation. Toward this end, it has engaged literature on reputation and competition, two mechanisms through which markets are often said to affect our character. In both cases, behavioral scholarship has yielded findings that affirm and yet also nuance and complicate claims within the existing and theoretical conversation.

And, in both cases, these findings have done so by indicating that we are better served to move from considering “the market”—in the singular, and in the abstract—to considering concrete markets and attending to their variability. Indeed, as long as our questions remain generic and lump all markets together, decisive answers will remain elusive, both theoretically and empirically. However, research is already available that can help us begin to answer questions about how specific market settings interact with our character.

To be sure, those in the humanities should exercise caution when using empirical research to draw conclusions about realities as subtle and complex as virtue and vice (at the very least, by being prepared to revise these conclusions if

76 E.g., see Geoff Moore, *Virtue at Work: Ethics for Individuals, Managers, and Organizations* (Oxford University Press, 2017); Geoff Moore, Ron Beadle, and Anna Rowlands, “Catholic Social Teaching and the Firm: Crowding in Virtue: A MacIntyrean Approach to Business Ethics,” *American Catholic Philosophical Quarterly* 88, no. 4 (2014): 779–805; and Geoff Moore, “The Virtue of Governance, and the Governance of Virtue,” *Business Ethics Quarterly* 22, no. 2 (2012): 293–318.

77 On the importance of public discourse, e.g., see Björn Bartling, Vanessa Valero, Roberto Weber, and Lan Yao, “Public Discourse and Socially Responsible Market Behavior,” *American Economic Review* 114, no. 10 (2024): 3041–74. For two examples of conversations on how to renarrate the economy as intrinsically social and moral, see The Economy of Francesco, <https://francescoeconomy.org>, and The Stories for Life project of the Wellbeing Economy Alliance, <https://weall.org/changing-the-narrative>.

later research makes this necessary).⁷⁸ Even so, engaging this work offers one promising way to reduce the polarization of the conversation on markets and morality, and to ensure arguments have a chance to resonate with and appeal to more than the already converted on each side. At the same time, it also enables deliberation over how to strategically respond to the influences we encounter in markets, by capitalizing on their good effects and minimizing their corrupting ones. For, ultimately, this should be the real goal of these discussions—not simply to prove the superiority of one side over another, but to collaboratively discern how to improve markets as moral contexts, and to make them more hospitable to virtue.

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⁷⁸ For one helpful introduction to the considerations to take when engaging the social sciences from the humanities, see Neil Arner, "Apprehending 'The Human': Theological Anthropology and the Crisis of Credibility in the Social Sciences," *Journal of the Society of Christian Ethics* 41, no. 2 (2021): 367–85.