When economics is taught, the moral dimensions of markets are commonly ignored. The result is that superficial, misleading, and highly emotional views on the morality of markets are given free rein. Furthermore, these views are reinforced by politicians and others to create a widespread moral bias against market incentives and in favor of government programs as the most moral approach to addressing economic problems. We consider the challenge this presents to effective economic education and the importance of considering the morality of markets and comparing it in a realistic and evenhanded way with the morality of the political process.

Introduction

Economics is commonly thought of as difficult to teach. In some respects, this is surprising. The basic economic concepts of scarcity, opportunity costs, the law of demand and supply, and marginalism are really quite straightforward. At an early age, everyone becomes familiar with scarcity. Indeed, we believe the best explanation for the “terrible twos” is that at about age two children discover scarcity. This discovery quickly leads to an awareness of the ubiquity of opportunity costs. Few things are more reasonable than people buying more when the price goes down and supplying more when the price goes up. Even the paradox that water is far more valuable than diamonds, but the price of diamonds is far higher than the price of water, is easily explained with the concept of marginalism. It is true that deriving the implications of these basic concepts can be difficult, but this difficulty is commonly far greater than it needs to be. Much of what economists
learn in their doctorate programs is how to take simple ideas and render them completely incomprehensible. If they do not learn it there, they learn it when trying to publish their papers.¹

Yet teaching economics is difficult. One reason for this difficulty is that many of the conclusions that follow from the basic economic concepts are counterintuitive. Consider some examples: country A can benefit from trading with country B even though all goods can be produced better in A than in B (an implication of comparative advantage, which is based directly on opportunity cost); education makes people better off by increasing the cost of everything they do (opportunity cost); legally reducing the price of a product increases the cost consumers pay for it (opportunity cost, law of demand and supply, and marginalism); and paying star athletes more than medical doctors makes consumers better off even though the former only entertain us while the latter save our lives (demand and supply curves and marginalism). These conclusions are not intuitively obvious and getting students to understand why they make sense can be a challenge.²

The challenge to economic educators we discuss here, however, concerns a moral bias against economics and, particularly, against markets. Consider the widespread resistance to the central insight of economics: Countless numbers of diverse and widely dispersed individuals with no direct knowledge of, or concern for, each other can coordinate their actions in mutually beneficial ways in the absence of a coordinator. Obviously, we are talking about Adam Smith’s “invisible hand,” a proposition that has long been criticized. A common criticism of the invisible hand is that it suggests markets work better than they actually do—a criticism that has little to do with morality and that cannot be dismissed, though it can be moderated by standard economic education. No economic system, market or otherwise, performs perfectly, and economists are fully aware of market failures, having devoted much effort determining and explaining the conditions under which they occur. They have also pointed to the difficulty of the coordinating task confronting all economies and made a compelling case with theory and evidence that economies relying primarily on decentralized markets do a better job of coordinating economic activity than do economies relying primarily on centralized planning.

We believe the most misguided, but also the most effective, criticism of markets is aimed at their morality rather than their performance, and this criticism has received much less attention from economists and economic educators. This relative lack of attention is unfortunate for two reasons. First, economics is a moral discipline founded by Adam Smith who was a moral philosopher and much that is important about economics cannot be fully understood or appreciated without considering its moral dimensions. Second, there is a strong moral
bias that favors government over market approaches to solving problems, even when the public welfare is better served by the latter than the former. Unless the political economy of this moral bias is understood and incorporated into their teaching, economic educators will not only fail to make the moral case for markets but will be less effective than they could be at making the strictly economic case for them.

When economists do make the moral case for markets, they tend to do so by concentrating on desirable outcomes, or ends. Much can be said in favor of relying on markets for achieving ends such as increasing prosperity, promoting social cooperation, expanding opportunities, and improving the environment. However, the focus on ends puts the case for the morality of markets at a disadvantage. Morality is almost never judged by ends alone. We have all heard, and most accept, that the ends do not justify the means. For many, this statement implies that no matter how desirable the ends, they are unacceptable if achieved by immoral means. Serious philosophers have debated the validity of this conclusion, but, for our purposes it is enough to recognize its popular appeal. Because of this popular appeal, economists and economic educators seriously limit the persuasiveness of their arguments in favor of markets by concentrating almost entirely on the desirable ends of market behavior. No matter how desirable those ends, many will see them as contaminated in comparison to political outcomes because they see the means of markets as immoral in comparison to the means of politics. We shall argue that this bias favoring the morality of the political process is based on a naïve view of that process but one that presents economic educators with a serious challenge. Subjecting this bias to careful examination is the necessary first step in meeting this challenge.

We develop our argument as follows: In section 2, we consider two kinds of morality: magnanimous morality and mundane morality. Magnanimous morality is based on concern for others and is more appropriate for interactions within small groups, such as families and networks of friends and associates. Mundane morality is based on subjecting the pursuit of self-interest to general rules of behavior and is more appropriate for interactions within large groups of people who depend on each other but have little if any knowledge of, or personal contact with, each other. Magnanimous morality has far greater emotional appeal, but it is mundane morality that is necessary for a productive market order. In section 3, we illustrate the necessity of relying on mundane morality to realize the social cooperation that results from markets—cooperation that is impossible to achieve through the caring of magnanimous morality. The desire to rely on magnanimous morality to achieve a more moral economy is a strong one. This desire coupled with the incentives of the political process has implications for
economic education that we consider in section 4. Central to this consideration is explaining why the political rhetoric of magnanimous morality is effective at convincing voters that political decision-making is morally superior to market decision making even when this is clearly not true. Markets are far from perfect, of course, and we conclude in section 5 that any credible case for markets requires acknowledging market imperfections. However, when the performance and moral deficiencies of markets are honestly compared with those of the political process, the market is seen as no less moral than the political process, and far more moral than most people realize.

Morality: Contrasts Between the Magnanimous and the Mundane

The behavior that almost everyone instinctively sees as moral (what we refer to as magnanimous morality) can be described as helping others in ways that satisfy three conditions: (1) it is provided intentionally, (2) it is provided at a personal sacrifice, and (3) it is provided directly to identifiable individuals or groups. Helping others without the intention to do so earns one no credit for being magnanimously moral. For example, preventing a suicide bomber from completing his mission by accidently running him off the road is not considered a moral act. To be considered moral, behavior cannot be seen as motivated by selfish motives—personal sacrifice has to be involved. This condition is related to the importance of intentions. The greater the personal sacrifice, the more confident we can be that performing a noble act is intentional and the greater the moral significance of the act. Indeed, the amount of personal sacrifice often carries more moral weight than the amount of good that is accomplished. Recall the biblical story of the widow whose donation of two pennies prompted Jesus to tell his disciples: “I tell you the truth, this poor widow has given more than all the others who are making contributions. For they gave a tiny part of their surplus, but she, poor as she is, has given everything she had to live on” (Mark 12:43 NLT).

Finally, helping identifiable people, or particular groups, is more likely to be considered moral than providing widely dispersed benefits impersonally and indiscriminately. For instance, when contributions are solicited to fight hunger in poor countries, it is common to offer potential donors the opportunity to contribute to a specific child in return for that child’s picture and history. We all recognize the morality of valiant efforts to rescue identifiable victims of mining accidents, while saving more lives by improving the safety of highways receives little, if any, moral acclaim because those saved are not easily identified. This
bias is captured in the statement attributed to Stalin: “A single death is a tragedy; a million deaths is a statistic.”

We should emphasize that our purpose is not to disparage magnanimous morality. The caring and concern for others reflected in magnanimous morality is the source of the most emotionally meaningful and fulfilling relationships in human lives. As precious as this morality is, however, it is most suitable in our relationships with relatively small numbers of people with whom we have direct contact and some personal knowledge of their concerns and circumstances. These people obviously include family members and close, personal friends but also some of those who are only passing acquaintances. Despite the benefits from magnanimous morality in small-group settings, we shall argue that it cannot motivate the cooperation in the extended economic order we depend on for economic prosperity.

The morality of markets is very different than the magnanimous morality appropriate for small groups and is not widely recognized as morality at all. At best, it is seen as a rather mundane morality, which is the label we use to denote it. Mundane morality can be described as obeying the generally accepted rules and norms of engaging in impersonal exchange, such as being honest, keeping our promises and contractual obligations, respecting the property rights of others, and not intentionally harming others. There is nothing heroic about the behavior that satisfies these conditions, which is really nothing more than what is expected of any decent person. Referring to this morality more broadly as justice, Adam Smith stated:

Mere justice is, upon most occasions, but a negative virtue, and only hinders us from hurting our neighbour. The man who barely abstains from violating either the person, or the estate, or the reputation of his neighbours, has surely very little positive merit. He fulfills, however, all the rules of what is peculiarly called justice, and does everything which his equals can with propriety force him to do, or which they can punish him for not doing. We may often fulfill all the rules of justice by sitting still and doing nothing.5

While Smith did not elevate mundane morality to the level of magnanimous morality, he was interested in exploring the possibility of achieving economic cooperation through the pursuit of self-interest subject to the requirements of mundane morality, which he did in his landmark book, *The Wealth of Nations*. Smith’s conclusion regarding this possibility is that because we each endeavor to direct our industry where
its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it …; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it [emphasis added].

This passage has been criticized for well over two centuries. Some of the criticism involves simply dismissing the invisible hand as a fantasy based on nothing more than a misplaced religious belief—recently being referred to by market skeptics as free-market fundamentalism. However, every reputable economist since Smith has recognized that the operation of the invisible hand is not divinely inspired. Instead, it depends critically on institutional arrangements and social norms that enforce widespread adherence to the mundane morality of the marketplace. It is this reliance on mundane morality, however, that we believe lies at the heart of much of the criticism of markets and of the invisible-hand justification for them. As seen from the emphasis added, the invisible-hand quotation rejects any indication of the magnanimous morality that people instinctively and emotionally associate with moral behavior. The good resulting from the invisible hand of the market is unintended, motivated by personal gain, and the good goes to society, for example, to no one in particular. For many people, this suggests that market behavior is at best amoral and at worst immoral.

**Assisted Living Without the Caring**

Even when acknowledging the tremendous benefits received from markets, many people believe those benefits could be provided in more morally acceptable ways; that is, by people being motivated to assist each other out of a sense of concern rather than the desire for profit. Perhaps this explains why many find the rhetoric of socialism appealing, while either ignoring the reality of such economies or finding excuses for that reality. The understanding that distinguishes most economists from others is not only that the extended network of mutual assistance we all depend on can be achieved unintentionally by people pursuing their own interests subject to the mundane morality of the market but also that this is the only way it can be achieved.
We could never acquire the goods and services needed to even remotely maintain our lifestyles without the constant and specialized assistance of far more people than could ever know us, much less care about us. Assisted living is not just for the elderly. We all need the benefits of assisted living, and each of us has literally millions of assistants. Of course, this assistance is mutual; it is expected that we will reciprocate with specialized productive efforts of our own to provide others with the assistance they desire. There is no way that more than the tiniest amount of this mutual assistance can be motivated by people sincerely caring about each other.

The inability of millions of people to genuinely care for one another is not the only difficulty they have to overcome to benefit from a network of mutual assistance. They would have to continuously aggregate and update the constantly changing information, possessed in fragmented amounts by multitudes of widely dispersed individuals, on their unique preferences, abilities, expectations, and circumstances and communicate this information to those best able to use it to serve the interest of others. This sounds like an impossible task. Yet, the prosperity enjoyed in market economies provides clear evidence that this information is communicated through markets amazingly well. It is done so through market prices that emerge from a process of largely impersonal exchanges made possible by the discipline provided by the mundane morality of the marketplace. Because people do not care for multitudes of others, the information has to be communicated with an incentive to use it as if they do. Clearly, market prices provide this incentive.

The prosperity created by the market process is only one measure of its impressive performance. Another measure is that the process works so well few people appreciate how difficult the task the market routinely accomplishes is or how much they depend on that accomplishment for the prosperity they take for granted. The primary job of economic educators is to explain the amazing degree of coordination necessary for our prosperity and then to explain how this coordination is guided by the incentives and information communicated through the market process. A largely unappreciated difficulty economic educators face in performing this task is that long before most students take their first economics course, they have heard from more than a few preachers, politicians, professors, and pundits that we can have the benefits of market economies by relying on caring and concern (magnanimous morality), rather than on self-interest and impersonal market exchange (mundane morality). The emotional appeal of magnanimous morality makes such claims attractive to large numbers, including many economic educators. These claims are made even more attractive by a widespread bias in favor of substituting political solutions for market solutions.
to economic problems in the erroneous belief that political behavior is motivated primarily by magnanimous morality.

**Morality and Political Economy**

People associate morality more closely with political than with market processes because moral perceptions have more influence on political than on market decisions. For this reason, politicians employ the rhetoric of morality when seeking support from voters for government policies far more than do businesspeople when seeking the patronage of buyers for market products. Politicians routinely talk about policies they favor in terms of magnanimous morality. They claim that those policies are intended to help identifiable and deserving groups such as the poor, the elderly, the sick, the unemployed, the family farmers, or those whose jobs are threatened by foreign competition.

The rhetoric of businesspeople aimed at creating demand for their products is less focused on moral concerns. True, they do make efforts to present themselves and their products in ways consistent with the prevailing morality. Businesses often make claims about their environmental concerns and mention their charitable contributions to worthy causes. However, businesses know that if consumers realize no personal advantage in their products, bankruptcy will soon follow no matter how strong their reputation for magnanimous morality.

Despite public perception, however, political behavior and outcomes are not more magnanimously moral than market behavior and outcomes. To understand why, we compare the personal cost of buying market products with the personal cost of voting for a government policy.

There is a fundamental difference between buying a product and voting for a policy (or for a politician who supports it) that affects the personal costs of the two activities. First, consider buying a product. When someone makes a choice to buy a product in the marketplace, her choice is decisive. She gets the product she chooses, and she gets it because of her choice. If, for example, she is considering the purchase of a $600 lamp, expect her to give more thought to the benefit she anticipates from the lamp than to the moral consequences of the purchase for such things as American jobs or the distribution of income. Then she will make the purchase only if she anticipates at least $600 in benefit because choosing the lamp will cost her $600. This is obvious, but it is worth emphasizing because it differs significantly from the situation when voting for a government policy.

Consider our consumer in the voting booth deciding whether to vote on a government policy (call it policy A) that claims to save American jobs by restricting
foreign imports. Assume she knows that if policy A receives a majority vote, it will cost her an additional $600 in higher prices. As opposed to buying a product, however, when someone chooses to vote for a particular policy her choice is almost never decisive. So our voter can safely ignore the $600 when voting for policy A because her vote makes effectively no difference in whether it passes or not. Her personal cost of voting A is essentially zero. To be precise, using the probability of 1/60,000 that her vote will determine if the policy passes or not (see note 9), her expected cost of voting yes is one penny—$600 times the probability policy A passes because she votes for it. If, like most people, our voter feels morally virtuous from voting for what she believes is a noble objective, and that feeling is worth at least as much as a cup of coffee and a bagel, voting for policy A is a bargain. This ability to achieve a sense of moral virtue at an extremely low cost by voting can easily create an emotional bias favoring political over market decision-making.

The bargain our voter realizes from voting to restrict foreign imports clearly depends on her believing her vote is an act of magnanimous morality, one involving an intentional personal sacrifice to help others. This makes her, and many others, open to being convinced by political rhetoric that voting for a wide range of government action is an effective way to promote noble goals. The other side of this coin is that many people will be resistant, if not hostile to economic educators employing basic economic concepts to demonstrate that many government programs and policies harm those they are supposed to help.

At the very minimum, voters will have little motivation to incur the cost of determining if the noble objectives for which they voted are actually being achieved. The incentives inherent in the political process result in voters being content with the pretense of magnanimous morality and the superficial appearance that government action is serving what they see as moral purposes. The situation is far different, however, for well-organized groups with the political influence to affect the design and implementation of government programs in ways that do more to promote their private interests than to promote the goals for which the voters thought they were voting. Thus, it should not be surprising if the good intentions of voters are commonly perverted by interest groups. Of course, no interest group admits to doing such a thing. They camouflage their actions with the rhetoric of magnanimous morality that the typical voter finds easier and more morally gratifying to believe than to question.

Consider the fact that most people believe government regulation is enacted over the objections of business to do such things as protect the environment against excessive pollution and protect consumers against unfair pricing. Businesses do oppose some government regulations, and some regulations do result in
improvements over unregulated markets. However, regulation is often supported by businesses to increase their profits, and almost all regulation is influenced by businesses, or other special interests, in ways that reduce any social benefits it might otherwise provide.

For example, the Eastern coal industry lobbied for, and in 1977 received, environmental regulation requiring that all new, or retrofitted, coal-fired electric-generating plants use stack scrubbers to remove sulfur dioxide from their smoke emissions. This regulation did far more to protect the Eastern (and high-sulfur) coal interests against competition from sulfur-free Western coal than to protect the environment. Indeed, this regulation surely harmed the environment by creating other forms of pollution, while doing little if anything to reduce sulfur dioxide emissions.\textsuperscript{11} The Minerals Management Service, a federal agency established in 1982 to regulate offshore oil drilling, has long been known to be heavily influenced by the oil industry. Furthermore, it was only after the 2010 oil spill in the Gulf of Mexico that the cozy relationship between the Big Oil regulators and Big Oil became widely known, and calls were made to abolish it.\textsuperscript{12}

The long history of industry regulation, beginning in the late nineteenth century with regulation of railroad rates and antitrust regulation, shows a consistent pattern of keeping prices artificially high by protecting firms against competition. This has been accomplished by government restrictions on entry and price competition in regulated industries\textsuperscript{13} as well as the tendency for government to use antitrust regulation to protect less efficient firms against the increased efficiency and price reductions of more efficient firms.\textsuperscript{14}

Many other examples could be given of how government serves the interests of businesses with regulations that harm consumers and do less to protect the environment than could have been done. The rhetoric that invariably accompanies such regulation is about protecting consumers and the environment against the profiteering and greed of powerful business interests. Lurking behind such rhetoric, however, the moral reality is that political behavior is motivated as much by self-interest as is market behavior. Voters receive an inexpensive sense of moral virtue by voting for noble sounding objectives; organized interest groups secure protections and privileges at the expense of the public; and incumbent politicians receive the support of voting blocs’ increasing their ability to keep the perks, privileges, and power of elective office. Unfortunately, self-interest is seldom disciplined as productively in the political arena as it is in the marketplace. The discipline of spending and investing your own money subject to the information and incentives contained in market prices is more effective at motivating people to actually serve the interests of others than is casting votes at the ballot box and lobbying for political favors. The reason for this productive advantage of market
action over government action adds to the tendency to see government action as needed to offset the moral failures of the marketplace.

Markets reward with profits those who use their resources and talents to productively serve the interests of others and punish with losses those who do not. The profits represent transfers of productive resources to those doing a good job serving others from those who are not. The losses are undeniably painful for those suffering from them, but, along with profits, they provide information and incentives that are essential to creating the pattern of market cooperation that promotes economic progress and provides widespread benefits. There is a fundamental morality at work here, with market losses reducing the ability of less-productive firms to a free ride on the general benefits created by more-productive firms. A vivid, recent example of such free riding is the federal government bailout of General Motors and Chrysler.

The tendency, however, is to see the losses as unfair, particularly when viewed against the backdrop of general prosperity that market discipline makes possible. With the general standard of living in market economies increasing gradually without any one in charge, people tend to see these improvements as part of the natural order of things but with few being aware of the connection between the “unfair” discipline of the market and the economic prosperity they take for granted. Politicians are all too ready to enact policies that provide protection against market competition to particular groups in the name of fairness. These protections provide visible benefits, with the costs in reduced productivity being so thinly spread that they go largely unnoticed and being difficult to trace back to their cause if they are noticed. Such government protections have the look and feel of magnanimous morality. Thus, politicians will be able to continue justifying such protections as moral responses to immoral markets until more people become aware that, if universally provided, they would destroy the social cooperation and prosperity made possible only by the mundane morality of the marketplace.

It is the noble task of economic educators to expand the awareness of this basic economic and moral fact of life.

**Conclusion**

Making a case for markets on efficiency grounds does not depend on economic educators glorifying them as perfectly efficient. Such an approach is not credible and is sure to be counterproductive. Markets are flawed and, given the magnitude of the coordination task that we depend on markets to perform, we should expect them to be less than perfect. This should be acknowledged with analysis and
examples. It should also be made clear that markets cannot perform properly without government performing its proper role, which at a minimum involves enforcing the requirements of mundane morality on which markets depend and providing a few genuinely public goods.

There will always be honest disagreements over where the line should be drawn between reliance on markets and reliance on government. However, unless discussions of those disagreements consider the flaws in both markets and governments, and make honest comparisons between them, those discussions will be unproductive, not to mention intellectually embarrassing.

Similarly, making a moral case for markets does not depend on denying moral flaws in market behavior or on arguing that markets are more moral than government at all tasks. Instead, economic education should compare how the morality of market behavior compares with the morality of political behavior in the performance of different tasks. Our prediction is that when this is done objectively and competently, markets will not be judged more moral than government at every task, but they will be found to be far more moral than widely believed. Only by making this moral case for markets, can economic educators be as effective as possible making the economic case for them.

Notes


2. To paraphrase the British philosopher Herbert Spencer, education requires varied reiterations of alien concepts to reluctant minds.


4. We do not claim these characteristics are exhaustive but that they are of primary importance in distinguishing between the two types of morality being considered.


7. Adam Smith recognized this fact in his day (even though specialization was far less developed then than now) when he wrote each of us “stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons.” See Smith, *Wealth of Nations*, 26.

9. In almost any federal or state election, the probability that her vote will be decisive (determine the outcome of the election) is effectively zero. For example, assume there are 10,000,001 voters in a very close election—one in which the probability that any voter will chose outcome A over outcome B is .5001. Based on Table 4.1 in Geoffrey Brennan and Loren Lomasky, *Democracy and Decision: The Pure Theory of Electoral Preference* (Cambridge: Cambridge University Press, 1993), 57, the probability that the outcome of the election will be decided by one vote is $1/60,000$. Furthermore, only the slightest increase in the probability that voters will favor A over B, say from .5001 to .5003, reduces the probability that one vote will be decisive to a number completely indistinguishable from zero. Again, see Table 4.1 of Brennan and Lomasky, *Democracy and Decision*. The mathematics of voting suggests that people do not vote primarily for instrumental reasons (to affect the outcome of elections for material gain), but to express themselves in support of what they see as worthy objectives through what they feel is part of an important process—the democratic process.

10. The argument here applies to people of all political persuasions. Conservatives as well as liberals value supporting what they believe are moral objectives, and are more likely to do so the lower the personal costs. Obviously, conservatives and liberals will differ in what they see as the morality of different objectives, with conservative less likely than liberals to see the virtue of government interfering with markets. However, it is common for people who consider themselves to be conservatives, and claim to be in favor of free markets, to favor government restrictions on markets on a wide range of particular issues. See Bryan Caplan, *The Myth of the Rational Voter: Why Democracies Choose Bad Policies* (Princeton: Princeton University Press, 2007), 30–48, for a discussion of biases that are common to political liberals and conservatives, and which predispose them to favor political mandates over market incentives.


12. See http://www.csmonitor.com/USA/2010/0526/Gulf-oil-spill-Is-MMS-so-corrupt-it-must-be-abolished. As of this writing, the Mineral Management Service has been given a new name: The Bureau of Ocean Energy Management, Regulation and Enforcement, which has “implemented enhanced safety standards through new regulations and guidance, and [is] working with companies to ensure compliance.” See http://www.boemre.gov/.
