

The Market's Benevolent Tendencies*

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Abstract

Does the free market hurt the poor? What are the implications for Christians' obligations to the least of these among us? I argue that the free market is disproportionately generous to the poor in that it leads to material equality in the long run. I also examine the implications for the recurring debate on trade and globalization.

I. Introduction

Picture two meals.

The first meal is that available to a Scottish nobleman in the late 17th century. The meal probably includes cheese, dark bread, and meat. Maybe he has seasonal fruits and vegetables and a glass of French wine. The second meal is that available to a Scottish peasant during the same period. The peasant's meal is little more than a thin mixture of sweet milk and oats. The differences between the two were substantial.

Now fast-forward to the year 2004 and picture two different meals. This time, though, picture Bill Gates' dinner, and compare it to Joe Sixpack's dinner. Bill probably has the finest meats, cheeses, breads, fruits, vegetables, and wines that money can buy. Joe may have meatloaf, dinner rolls, canned vegetables, and sweet tea. The differences are trifling.ⁱ

In sharp contrast to the plight of his forebears, Joe Sixpack enjoys a meal that differs only slightly from the meal Bill enjoys. Where Bill might eat filet mignon with an assortment of sides, Joe might eat a slightly inferior cut of meat with sides that are very similar in every meaningful respect to those available to Bill. The differences between the goods available to the rich and poor in economic history were substantial, whereas there are few functional differences between the goods available to Bill and Joe. They probably both enjoy their meals in a climate-controlled dining room. Both have stainless steel forks, spoons, and knives. Both have numerous changes of clothes, air conditioning, and cars. Several centuries of capitalism and free markets have generated radically egalitarian outcomes: the difference between rich and poor 300, 200, even 100 years ago meant the difference between who heard the great orchestras and who didn't. Today, it is

the difference between who has Bose surround sound and who makes do with Sony and JVC.

The market is a great social equalizer, but merchants and businessmen still have a bad name. Some Christian leaders look down on merchants and on the very process of exchange. It exploits the poor. It produces rampant inequality. It destroys the environment. The free market encourages people to focus on filthy lucre rather than their responsibility to “do justice, love mercy, and walk humbly with (their) God.”ⁱⁱ And so on.

Milton Friedman wrote that the corporation’s social responsibility is to be profitable.ⁱⁱⁱ Many point to his article as an example of how we are not to think about the social responsibility of business. In our enlightened time, aren’t we above and beyond crass commercialism? Aren’t we above the narrow pursuit of gain, often at another’s expense? Shouldn’t we be helping one another? Shouldn’t we help people who need...help? Should we eschew the comforts and baubles of modern life to pour ourselves out in service to our unfortunate fellow man?

Maybe. Service to the church is extremely important, however, the institutions and organizations of commercial society are critical to the attainment of various social goals and mores. Production does not occur in a vacuum—it is important for the social critic to realize that the spectacular wealth enjoyed in the western world was not an accident.

The market’s bad name among progressive religious scholars is wholly undeserved. It provides hundreds of millions with standards of living that would have

boggled the minds of the great kings of yesteryear. In what follows, I illuminate some of the most important aspects of the market economy.

I do several things in this essay. First, I provide a brief overview of market exchange. Second, I discuss its effects. Third, I apply what we know about the market's egalitarian tendencies to the question of globalization. I conclude in section V.

II. Demonstrated Preference, Comparative Advantage, and The Benevolence of Trade

The Bible can tell us what one's preferences should be, but it is largely mute on social organization.^{iv} While lust after unrighteous mammon for its own sake is idolatrous, a world in which everyone pursues his own interests—whatever those may be—while staying within the boundaries prescribed by natural law will be a rich world indeed, providing a great bounty even to the least of these among us.

Ever since Adam Smith (and even before), economists have recognized that specialization and the division of labor are the wellsprings of abundance. The pin factory that Smith so famously observed produced many more pins in a day than someone working alone might have been able to produce in a year.^v Why?

It's simple: *comparative advantage*. It is usually discussed in the first few chapters of any principles of microeconomics textbook—indeed, Paul Heyne, Peter Boettke, and David Prychitko devote chapter two of their classic *The Economic Way of Thinking* to comparative advantage—and the principle of comparative advantage shows us how specialization allows us to get more wealth using the same input.

Two important principles characterize exchange. The first is increased productivity. The second is that it exhausts all possible mutually beneficial exchanges, as 1986 Nobel Laureate James Buchanan has noted. In other words, the tendency in the market is for all

possible exchanges that benefit two parties while harming no one to be made. In the long run, the tendency is for people to find and exploit all situations in which they can make themselves better off. By harnessing the force of self-interest and collating valuable information, the institutions of commercial society have become the modern world's horn of plenty.

But is this *ethical*? Is it in line with the Bible's teachings? Is the crass pursuit of material gain a worthwhile goal? If we drop the unwarranted assumption that the pursuit of self-interest is self-evidently crass, the answer is "absolutely." In an attempt to reformulate welfare economics, Murray Rothbard showed that exchange creates wealth because it allows people to exchange one set of goods and services for a set of goods and services they prefer.

So what are we to say of the effects of state intervention on "social" utility? We cannot say with certainty that intervention "increases" social utility because it involves demonstrable harm to at least one person; conversely, the subjective theory of value prevents us from saying that intervention "decreases" social utility. Extending the analysis in "Toward A Reconstruction," Rothbard takes this up in his follow-up to *Man, Economy, and State, Power and Market*:

The first step in analyzing intervention is to contrast the *direct* (italics in original) effect on the utilities of the participants, with the effect of a free society. When people are free to act, they will always act in a way that they believe will maximize their utility, i.e., will raise them to the highest possible position on their value scale.^{vi}

It follows, then, that the only welfare conclusion we can reach *with absolute certainty* is that coercive intervention will move the coerced agent to a lower position on his/her value scale. For the coerced agent, the state of the world that obtains in the absence of coercion is necessarily preferred *ex ante* to the state of the world that obtains under coercion.

When all is said and done, our conclusion on welfare analysis is this: the victims of coercion will, with absolute certainty, be moved to lower positions on their value scales, and the resultant changes in relative prices will prohibit such conclusions about whether or not the beneficiaries of coercion attain higher positions on their value scales. Without introducing value judgments, we can't say anything more.

III. Rich & Poor Yesterday and Today

Ethics and religion center on value judgments, and the market is usually condemned on the grounds that it distributes wealth unevenly. This objection is untenable for two reasons: first, "income distribution" has no operative meaning. Wealth isn't "distributed" by anyone; as Rothbard notes, "(t)here is no distributional process apart from the production and exchange processes of the market; hence the very concept of 'distribution' becomes meaningless on the free market."^{vii}

Second, on the changing mode of income distribution as a result of the market process, Rothbard continues:

"Since 'distribution' is simply the result of the free exchange process, and since this process benefits all participants in the market and increases social utility, it follows directly that the 'distributional' results of the free market also increase social utility."^{viii}

Do the facts match the theory? Are people made better off by exchange, commerce, and the pursuit of filthy lucre? To the extent that we can agree on what constitutes being made “better off,” the answer is “yes.” Donald McCloskey (1995) recorded that income *per capita* in Great Britain increased by a factor of twelve between the mid-18th century and the modern day. Peter Lindert (1995) and Lindert & Williamson (1983) point out that capitalism has substantially bettered the lot of the least of these among us, making them rich beyond anything we ever could have imagined a mere two decades ago, to say nothing of a few centuries ago.

Critics may point to the “worsening” income distribution—specifically, the top 5% of income earners take home a bigger slice of economic pie than they have traditionally—but money incomes may not be the right proxy for what we truly want to measure. As John Nye^{ix} points out, unequal incomes may not mean unequal lifestyles. The goods that are available to the poor are near-perfect substitutes for the goods that are available to the rich. In other words, they have very similar physical characteristics.

Access to goods rather than incomes *per se*^x is what matters, and the convergence between rich and poor is most evident at the grocery store. For every high-end item—a fine cut of meat, specialty spaghetti sauce, whole-grain bread, fresh-ground coffee, or fine liquor—there is a cheaper substitute with almost identical physical, temporal, and spatial characteristics. The list of high-end goods for which we can find cheaper substitutes of virtually identical quality is endless; and the common man of today enjoys fineries of which the most powerful kings of yesteryear couldn’t dream.

IV. An Application: Globalization^{xi}

Specialization makes this possible; however, specialization is under attack because of the supposed deleterious effects of globalization. The economics of international trade are straightforward: to the extent that everyone is able to pursue his/her comparative advantage, everyone gets richer. Outsourcing to India yields higher productivity, cheaper products, and higher real incomes for everybody. In the long run, American consumers get better, cheaper products. Poverty-stricken Indians can earn higher incomes in an IT job and no longer face the threat of starvation. Valuable factors of production—labor and capital—can be directed into new lines of production, and a merchandise trade deficit naturally translates itself into a capital account surplus, which means higher investment, higher productivity, and more jobs domestically.

Alas, however, the politics of globalization aren't so simple. Technology jobs pop up all over India and Americans conclude that the sky is falling. Some people lose in the very short run, and those people are very, very visible. Politicians turn this into political mileage. You see your neighbor lose his job because his firm is outsourcing to India, and you conclude that globalization must be A Very Bad Thing. The long run trend toward lower prices, higher quality, and better service is more subtle. Goods are cheaper. Service is better. You can call an 800 number and speak to a real person. These aren't as apparent as the immediate, concentrated costs of globalization.

Everybody wants to take an ethical stance on globalization. People point to low-wage factory or IT workers and say that globalization is an incomparable evil because people are paid low wages to work under wretched conditions. This reasoning always relies on an irrelevant comparison: wages are “low” and working conditions “wretched”

by western standards. By local standards—the relevant comparison—working in a garment factory for 25 cents an hour is a major improvement over your alternatives.

This is instructive: well-intentioned interventions often lead to disastrous results. There was an uproar about Bangladeshi child labor a few years ago that led to outright bans on Bangladeshi imports using child labor. Naturally, a number of factories closed. So what did the child laborers do? They all went to school, right? They were liberated from the bonds of capitalist oppression and were free to “just be kids,” right?

Wrong. They went from lives of abject poverty and starvation into factory jobs where they could earn relatively high wages. When the factories closed, some children starved. Others became prostitutes.^{xii} Those are the unintended consequences that the anti-globalization crowd isn't so quick to see.

In summary, the globalization debate focuses on one side of a cost-benefit analysis. It looks only at the costs, and it often misconstrues some of the benefits (child labor in the third world) as “costs.” From a purely utilitarian perspective, outsourcing and globalization are unmitigated goods. Globalization lifts our standards of living while pulling many of the world's less fortunate out of abject poverty.

V. Institutions & Redistribution^{xiii}

Almost all Christians would agree that the Common Faith contains a common ethical core, as well; in addition to “One Lord, one faith, one baptism, One God and Father of all, who is above all, and through all, and in you all,”^{xiv} Christians share a body of common rules that govern human behavior. These are embodied in the Ten Commandments, the Beatitudes, and the Golden Rule.^{xv} It is uncontroversial to assert that we are to help those who cannot help themselves, that we are to love our neighbors

as ourselves, and that we are to refrain from theft, murder, adultery, covetousness, and false witness.

The bone of contention appears not when we ask whether or not we are to love our neighbor as ourselves or whether or not we are to care for the poor, but when we ask how these virtues are to be manifested in the social environment. I will note first that the capitalist revolution that gave rise to the Christian socialist movement of the late 19th and early twentieth century in fact worked a great benefit to the poor. Second, I will argue that well-intentioned formal institutions designed to redistribute wealth may in fact work to the detriment of the poor.

Formal rules have a pronounced impact on economic performance (North, 1990, 1991, 2004). They consist of the set of “thou shalt” and “thou shalt not” decreed by the state, and different interpretations of scripture will yield different assessments of what the content of these rules should be. In the libertarian ideal, a state would be an organization that merely protects property rights in exchange for revenue—akin to the insurance company proposed in Hoppe (2001) and enforcing the commandments that “thou shalt not steal” and “thou shalt not kill.” In the socialist ideal, a state acts to ensure that everyone has adequate material provision.

Where did Christian socialism come from? Christian socialists’ aversion to capitalism stemmed from what they observed in the industrial economies of the United States and Western Europe. At the risk of oversimplifying the matter, the Christian socialists of the late 19th and 20th century felt that the unequal distribution of wealth between the proletarian working class and capitalist plutocrats was unacceptable. The plight of *les misérables* cried out for state intervention.

While money incomes were certainly unequal, it does not follow from this fact that the unfettered market wrought unambiguous social injustice. I mentioned above that Lindert (1995) and Lindert and Williamson (1983) show that the industrialization of Great Britain resulted in net welfare increases for the working class. In a collection of lectures delivered at the University of Buenos Aires in 1959 and published posthumously in 1979, Ludwig von Mises noted that the rise of capitalism in the 19th century provided greater opportunities for everyone. As Mises eloquently puts it,

The famous old story, repeated hundreds of times, that the factories employed women and children and that these women and children, before they were working in the factories, had lived under satisfactory conditions, is one of the greatest falsehoods of history. The mothers who worked in the factories had nothing to cook with; they did not leave their homes and their kitchens to go into the factories, they went into factories because they had no kitchens, and if they had a kitchen they had no food to cook in those kitchens.^{xvi}

He notes that the situation for the children was equally grim:

(T)he children did not come from comfortable nurseries. They were starving and dying.^{xvii}

The evidence indicates that the capitalist revolution of the 19th century was a great boon to the daily life of the common worker.^{xviii} Even if this boon is insufficient, it is far from clear that state intervention will succeed in improving the lot of society's less fortunate.

Coercive redistribution is intuitively appealing: what better way to help the poor or advance equality than to take from those who have and give to those who have not? Why

wouldn't Christians who believe that we should love our neighbor and care for the poor support redistributive policies? After all, the capitalists of the 19th century and the "robber barons" of the early 20th century certainly possessed the means to provide for those less fortunate.^{xix}

Economic theory teaches us that people do not act in a vacuum. The fundamental lesson of economics is that people respond to incentives, and a change in formal institutions (such as redistributive intervention) necessarily changes the structure of incentives in the long run and may, in fact, work to frustrate the entrepreneurial mechanisms that produced phenomena like Twelve. While the recipient of government *largesse* will see his consumption possibilities increase in the short run, the first-order effect of redistributive coercion is to increase uncertainty. Redistribution signals that the state cannot (and will not) credibly commit to respect for and maintenance of property rights. This will decrease the present value of potential investments and, at the margin, lead to lower levels of investment. Lower investment entails a reduction in the rate of economic growth and a potential reduction in future consumption possibilities for everyone.

Second, higher marginal tax rates—which are necessary if we are to effect a redistributive policy—will retard economic growth. High marginal tax rates on labor will reduce one's incentive to supply labor services. This is particularly damaging if we are taxing high-wage occupations. These tend to be occupations in which people are either augmenting a country's technological foundations (research and development, for example) or making entrepreneurial and managerial decisions regarding the allocation of

factors of production (executives). Diminishing people's willingness to provide these types of labor services will retard economic growth.

High marginal taxes on capital will produce similar effects. Changing the prospective return to capital will affect investment decisions. Lower investment entails a smaller capital stock, which in turn entails lower future economic growth. The effect manifests itself largely in the form of lower wages: economic theory teaches us that in a sufficiently competitive market workers are paid their marginal value product^{xx}, and their marginal value product will be an increasing function of available capital. Less capital implies a lower marginal value product, which in turn results in lower wages.

What of the incentives for the recipients of state *largesse*? While welfare reforms of the last decade have attempted to address this issue, transfer payments reduce one's incentive to produce by diminishing his/her wage at the margin. To illustrate, consider a situation in which someone wakes up on Monday morning and considers whether or not to work for the week. He can earn \$240 by working a 40-hour week at a fast-food job, or he can earn \$250 on welfare. If he decides to work, the opportunity cost of a week of labor is \$250 in welfare payments, \$10 more than what he would earn by working. Even if he can earn \$280 by working (and enjoy a positive marginal wage of \$30), the incentive to produce is drastically reduced by the possibility of welfare payments.^{xxi}

V. Conclusions

What do we make of all this? Most importantly, there should be no acrimony between Christianity and commerce. Quite the contrary: the Christian should embrace commercial society because it provides humanity with good things—two good things in particular:

Commercial society makes us rich.

Commercial society makes us equal.

In spite of all this, commercial society is in grave danger. Capitalism has long been lambasted from the pulpits and in the court of public opinion. The great misfortune of it all is that we may very well be strangling the goose that lays the golden eggs.

In summary, Christians and other social reformers must look carefully at the unintended consequences of well-intentioned interventionism. Economic growth is anything but automatic; the phenomenal growth that characterizes the experience of the modern world was the result of a constellation of specific institutional factors, and the *most charitable* statement we can make about redistributive intervention is that it will necessarily retard economic growth and may harm “the least of these”^{xxii} in the long run. Moreover, the near-ubiquity of starvation and stagnation over the history of human civilization—including the 2000 years of the Christian era—certainly tells us that we tend to “get it wrong” far more often than we “get it right,” and there is nothing to guarantee that we will “get it right” in the future. If anything, we must proceed with caution.

*An earlier version of this essay was presented at the Loyola Institute's Annual International and Ecumenical Conference at Loyola University, New Orleans, June 10-12, 2004. This research was made possible by a Book Fellowship from the Ludwig von Mises Institute and travel grants from the Institute for Humane Studies' Hayek Fund for Scholars and from the Center for New Institutional Social Sciences. I thank Walter Block, Byron L. Carden, Douglass C. North, John VC Nye, Eric Rovie, and conference participants for comments and suggestions. All errors are mine.

ⁱ This example is adapted from Nye, *Economic Growth and True Inequality* (available at www.econlib.org/library/columns/nyegrowth.html) and *Irreducible Inequality* (available at www.econlib.org/library/columns/nyepositional.html). See Gibson & Smout (1995, pp. 248-250) for a detailed breakdown of Scottish diets.

ⁱⁱ Micah 6:8.

ⁱⁱⁱ *The New York Times Magazine*, September 13, 1970.

^{iv} Still, the commandments relating to personal interaction are fundamentally libertarian. Though the apostles sought a political revolutionary, Jesus emphasized that His kingdom is not of this world.

^v Smith's classic *An Inquiry into the Nature and Causes of the Wealth of Nations* is available online from the Liberty Fund's Library of Economics and Liberty at <http://www.econlib.org/library/Smith/smWN.html>.

^{vi} Rothbard, Murray. *Power and Market* (Kansas City: Sheed, Andrews, and McMeel Inc., 1970). P. 13. In the next sentence, Rothbard points to a Paretian definition of utility maximization.

^{vii} *ibid*, p. 241.

^{viii} *ibid*, p. 241.

^{ix} *Economic Growth and True Inequality* (available at www.econlib.org/library/columns/nyegrowth.html) and *Irreducible Inequality* (available at www.econlib.org/library/columns/nyepositional.html).

^x I am indebted to James Morley for phrasing this point.

^{xi} This section is drawn from private correspondence with Jon Bailey of Washington University's Department of Physics.

^{xii} Nicholas Kristof's op-eds in the *New York Times* have addressed this issue.

^{xiii} This section is drawn from section IV of my earlier essay "Christian Ethics, Formal Institutions, and Economic Growth."

^{xiv} Ephesians 4:4-6 (KJV).

^{xv} I stress that this common ethical core represents the *fruits* of salvation rather than the *causes* of salvation, as Paul did in his epistle to the churches in Galatia.

^{xvi} Mises 1979 [2002], p. 7

^{xvii} *ibid*.

^{xviii} Reisman (1996) also discusses the benevolent results of free market capitalism.

^{xix} I ignore for now the obvious ethical difficulties associated with coercion. For a full discussion, see Rothbard (1982).

^{xx} See Mises (1949), Rothbard (1963 [2001]), or any principles of microeconomics textbook for a discussion.

^{xxi} The obvious objection to this example concerns the supposed existence of involuntary unemployment. Mises (1949) and Rothbard (1962 [2001]) question the validity of this objection and note that, in the absence of state intervention restricting employment, all unemployment must necessarily be voluntary.

^{xxii} Matthew 25:40 (KJV)

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