Does the free market corrode moral character?

JOHN TEMPLETON FOUNDATION

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Does the free market corrode moral character?

Thirteen views on the question

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Online at www.templeton.org/market

The John Templeton Foundation serves as a philanthropic catalyst for research on what scientists and philosophers call the Big Questions. We support work at the world's top universities in such fields as theoretical physics, cosmology, evolutionary biology, cognitive science, and social science relating to love, forgiveness, creativity, purpose, and the nature and origin of religious belief. We encourage informed, open-minded dialogue between scientists and theologians as they apply themselves to the most profound issues in their particular disciplines. And we seek to stimulate new thinking about wealth creation in the developing world, character education in schools and universities, and programs for cultivating the talents of gifted children.

The Big Question posed in these pages has obvious contemporary relevance. Over the past decade, the effect of the market economy and globalization on long-established habits, beliefs, and institutions has been much debated in scholarly circles, in popular books, and in the serious press. Recent crises in American and international financial institutions have added urgency to the discussion. At the John Templeton Foundation, we are especially interested in exploring the relationship of these economic developments to ethics and morality—to character in its fullest sense. In what ways does the free market strengthen or undermine personal virtue and concern for others?

This booklet neatly embodies the approach that we take to the Big Questions across all of the Foundation's areas of interest. The contributors are distinguished scholars and public figures, they address a perennial and much-disputed subject, and they bring to bear—in civil, elegant prose—a range of different perspectives. By assembling this "conversation" and inviting the public to join in, we intend to spark a discussion that transcends the familiar positions usually found in such debates. We aim to turn discourse on the Big Questions in a more thoughtful, considered direction. It is our hope that this booklet will be a lasting resource for students, teachers, parents, political leaders, business people, clergy, and anyone else engaged with the great issues of human nature and purpose, especially as they relate to the complicated arrangements of modern life. Additional copies of the booklet can be ordered at bigquestions@templeton.org.

Three previous conversations on Big Questions at the core of the Foundation's mandate may also be of interest to readers. They can be found online at the following addresses:

Does the universe have a purpose?
www.templeton.org/purpose

Will money solve Africa's development problems?
www.templeton.org/africa

Does science make belief in God obsolete?
www.templeton.org/belief

Jagdish Bhagwati

To the contrary.

Jagdish Bhagwati is University Professor of economics and law at Columbia University, senior fellow for international economics at the Council on Foreign Relations, and the author of In Defense of Globalization. *He writes widely on public policy and international trade.*

I can attest from personal experience that, if you try to talk about the free market on today's university campuses, you will be buried in an avalanche of criticism of globalization. The opposition of faculty and students to the expansion of international markets stems largely from a sense of altruism. It proceeds from their concern about social and moral issues. Simply put, they believe that globalization lacks a human face. I take an opposite view. Globalization, I would argue, leads not only to the creation and spread of wealth but to ethical outcomes and to better moral character among its participants.

Many critics believe that globalization sets back social and ethical agendas, such as the reduction of child labor and poverty in poor countries and the promotion of gender equality and environmental protection everywhere. Yet, when I examined these and other issues in my book, *In Defense of Globalization*, I found that the actual outcomes were the opposite of those feared.

For example, many believed that poor peasants would respond to the greater economic opportunities presented by globalization by taking their children out of school and putting them to work. Thus considered, the extension of the free market would act as a malign force. But I found that the opposite was true. It turned out that in many instances, the higher incomes realized as a result of globalization—the rising earnings of rice growers in Vietnam, for example—spurred parents to keep their children in school. After all, they no longer needed the meager income that an additional child's labor could provide.

Or consider gender equality. With globalization, industries that produce traded goods and services face intensified international competition. This competition has reduced the yawning gap in many developing countries between the compensation paid to equally qualified male and female workers. Why? Because firms competing globally soon find that they cannot afford to indulge their pro-male prejudices. Under pressure to reduce costs and operate more efficiently, they shift increasingly from more expensive male labor to cheaper female labor, thus increasing female wages and reducing male wages. Globalization hasn't produced wage equality yet, but it has certainly narrowed the gap.

There is now plenty of evidence that India and China, two countries with gigantic poverty problems, have been able to grow so fast by taking advantage of trade and foreign investment, and that by doing so, they have reduced poverty dramatically. They still have a long way to go, but globalization has allowed them to improve material conditions for hundreds of millions of their people. Some critics have denounced the idea of attacking poverty through economic growth as a conservative "trickle-down" strategy. They evoke images of overfed, gluttonous nobles and bourgeoisie eating legs of mutton while the serfs and dogs under the table feed on scraps and crumbs. In truth, focusing on growth is better described as an activist "pull-up" strategy. Growing economies pull the poor up into gainful employment and reduce poverty.

Even if they grant that globalization generally helps the achievement of certain social aims, some critics still argue that it corrodes moral character. A widening free market, they say, expands the domain over which profits are pursued, and profit-seeking makes people selfish and vicious. But this is hardly plausible. Consider the Calvinist burghers described by Simon Schama in his history of the Netherlands. They made their fortunes from international trade, but they indulged their altruism rather than their personal appetites, exhibiting what Schama aptly called the "embarrassment of riches." Similar self-restraint can be seen in the Jains of Gujerat, the Indian state that Mahatma Gandhi came from. The riches that the Jains reaped from their commercial activities were harnessed to their values, not the other way around.

As for the influence that globalization continues to have on moral character, let me quote the wonderful sentiments of John Stuart Mill. As he wrote in *Principles of Political Economy* (1848):

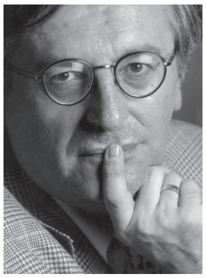
> The economical advantages of commerce are surpassed in importance by those of its effects, which are intellectual and moral. It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are free market is no nation which does not need to borrow from others, not merely particular arts or practices, but essential points of character in which its own type is inferior. . . . It may be said without exaggeration that the great extent and rapid increase in international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race.

In today's global economy, we continually see signs of the phenomena Mill described. When Japanese multinationals spread out in the 1980s, their male executives brought their wives with them to New York, London, and Paris. When these traditional Japanese women saw how women were treated in the West, they absorbed ideas about women's rights and equality. When they returned to Japan, they became agents of social reform. In our own day, television and the Internet have played a huge role in expanding our social and moral consciousness beyond the bounds of our communities and nation-states.

Adam Smith famously wrote of "a man of humanity in Europe" who would not "sleep tonight" if "he was to lose his little finger tomorrow" but would "snore with the most profound security" if a hundred million of his Chinese brethren were "suddenly swallowed up by an earthquake," because "he had never seen them." For us, the Chinese are no longer invisible, living at the outside edge of what David Hume called the concentric circles of our empathy. Last summer's earthquake in China, whose tragic aftermath was instantly transmitted onto our screens, was met by the rest of the world not with indifference but with empathy and a profound sense of moral obligation to the Chinese victims. It was globalization's finest hour.

John Gray

It depends.



John Gray is emeritus professor at the London School of Economics. Among his recent books are False Dawn: The Delusions of Global Capitalism *(Granta) and* Black Mass: Apocalyptic Religion and the Death of Utopia *(Penguin).*

Free markets corrode some aspects of character while enhancing others. Whether the result is good, on balance, depends on how one envisions a good life. Much also depends on whether one believes other economic systems can do better. The question can only be answered by comparing realistic alternatives and by understanding how different systems promote divergent types of human character.

It is important to avoid thinking in terms of ideal models. In recent years there has been a tendency to think that free markets emerge spontaneously when state interference in the economy is removed. But free markets are not simply the absence of government. Markets depend on systems of law to decide what can be traded as a commodity and what cannot. Slavery is forbidden in modern market economies; so are blackmail and child pornography. Free markets *always* involve some moral constraints of this sort, which are policed by governments. More generally, free markets rely on property rights, which are also enforced—and often created—by government.

The free market as it existed in mid-Victorian England came about not because the state withdrew from the economy, but rather because state power was used to privatize land that had been under various forms of common ownership, or not owned at all. The laissez-faire economy that existed for a few decades in 19th-century England was made possible by the Enclosure Acts. These laws, enacted by Parliament starting in the second half of the 18th century, displaced farm laborers from the countryside and created the industrial working class that was the free market's human base. But with the extension of democratic voting rights in the late 19th and early 20th century, these workers began to demand that economic activity be subject to various kinds of regulation. The eventual result was the managed market economy that exists in Britain and many other countries today.

A historical perspective is useful because it enables us to see that economic systems are living things. In real time, free markets rarely work according to the models constructed by economists. There are booms and bubbles, busts and crashes. It is only in economics textbooks that markets are self-regulating. Against this background, the relation between economics and ethics can be seen more clearly. The traits of character most rewarded by free markets are entrepreneurial boldness, the willingness to speculate and gamble, and the ability to seize or create new opportunities. It is worth noting that these are not the traits most praised by conservative moralists. Prudence, thrift, and the ability to press on patiently in a familiar pattern of life may be admirable qualities, but they do not usually lead to success in the free market.

In fact, when markets are highly volatile, these conservative traits may well be the road to ruin. Retooling one's skills, relocating, switching careers—such risk-taking actions help people survive and prosper in free-market economies. But this kind of risk-taking behavior is not necessarily compatible with traditional values that stress the value of enduring human attachments.

Adam Smith, one of the originators of free-market economics, was also an astute critic of commercial society. Smith feared that the market economy emerging in his time would leave workers adrift in cities lacking cohesive communities. As he perceived, the subversive dynamism of the market cannot be confined to the marketplace. Free markets demand a high degree of mobility and an ingrained readiness to exit from relationships that are no longer profitable. A society in which people are constantly on the move is unlikely to be a society of stable families or to be notably law-abiding.

In the end, the answer to this question depends on how one conceives the good life. What a traditional moralist views as family breakdown may be seen by a liberal as the exercise of personal autonomy. For the liberal, personal choice is the most vital ingredient of a good life, while conservatives may regard the preservation of valuable institutions to be more important. With regard to contemporary Western societies, I tend to a liberal view. But the important point is not so much which of these conceptions one adopts. Rather, it is this: though free markets reward some moral traits, they also undermine others. If they emancipate individual choice, they at the same time corrode some traditional virtues. One cannot have everything.

The moral hazards of free markets do not mean that other economic systems are any better. Centrally planned systems have corroded character far more damagingly and with fewer benefits in terms of efficiency and productivity. The planned economies of the former Soviet bloc only functioned—to the degree they did at all—because they were riddled with black and grey markets. Corruption was ubiquitous. In the Marxian model, the greed-fuelled anarchy of the market is replaced with planning based on altruism. But actual life in Soviet societies was more like an extreme caricature of laissez-faire capitalism, a chaotic and wasteful environment in which each person struggled to stay afloat. *Homo homini lupus*—man is wolf to man—was the rule, and altruism the exception. In these conditions, people with the most highly developed survival skills and the fewest moral scruples did best.

No economic system can enhance every aspect of moral character. All rely to some extent on motives that are morally questionable. Greed and envy may be vices, but they are also economic stimulants. An economic system is good to the extent that it harnesses human imperfections in the service of human welfare. The choice is not between abstract models, such as the free market and central planning. In the real world of history, neither has ever existed in the form imagined by its advocates. No, the true choice is between different mixes of markets and regulation, none of which will ever be entirely morally benign in its effects. A sensible mix cannot be achieved by applying an ideal model of how the economy should work. Different mixes will be best in different historical contexts. But one thing is clear: a modern market economy cannot do without a measure of moral corrosion.

Garry Kasparov

Yes, but…

Former world chess champion Garry Kasparov is a leader of the pro-democracy coalition The Other Russia. He is the author of a book on decision-making, How Life Imitates Chess, *and speaks to business audiences worldwide. He lives in Moscow.*

other systems are worse. The free market is a crucible of competition that can bring out the basest in human nature. Competition is fierce, and when survival is at stake, there is no room for morality. But, to paraphrase Churchill, for all its flaws, the free market is still superior to all the other economic arrangements that have been tried.

At first it seems obvious that a system based entirely on self-interest would lead to the moral decay of the individual. If you pause momentarily to aid your brother during your struggle to reach the top—to beat your competitors, to maximize earnings, to buy a bigger house—you will be surpassed by those without such qualms. How, in a truly free market, can there exist consideration for the good of one's fellow man?

Despite the seemingly cruel nature of unregulated market forces, there are two important ways in which they can improve the well-being of society, much as Darwin's unseeing laws generate the best-adapted forms of life. First, if moral character is valued by a society, it can be in one's self-interest to practice and preach moral behavior. It may seem to make little sense for a company to donate a share of its profits to charity when that money could instead go to improving its competitive position. But we know that such giving can enhance a company's image in ways that do improve its competitive position. In a free market, reputation is based on popular opinion, and that perception can become a material benefit.

Second, if a society (or at least a majority in a society) reaches what we might call a state of surplus, where survival is no longer in doubt, individuals have the luxury of indulging their moral character. No one would take desperately needed food from the mouth of his own child to give it to the child of another. Our giving, moral instincts exist, but they are secondary to the imperative to flourish. Bounty makes charity feasible.

There are, of course, exceptions to both of these rules, although they only strengthen the overall case for the free market. In the absence of real competition, there is no commercial advantage to moral conduct. This is demonstrated all too well by the rapacious behavior of the state-supported oligarchy that runs Russia today. A dominant clique simply does not care about its reputation.

Resource-rich nations like Saudi Arabia and (increasingly and unfortunately) Russia can generate excess wealth despite command economies and epic corruption. But a surplus that comes without accountability—to employees, shareholders, and consumers (or voters, I might add)—leads to corruption of every kind. Nearly all of the nations benefiting most from today's record energy prices use their unearned riches to tamp down dissent and to preserve the world's most repressive regimes.

Individuals who rely on the goodwill of their neighbors tend to act morally. So do companies that depend on the loyalty of employees, the favor of consumers, and the support of investors (if only, to be honest, as morally as they must). And so do governments that depend on the participation and tax revenues of their citizens. Though the relentless pursuit of self-interest can corrupt, a free market clearly creates incentives for moral behavior. Other systems lack these concrete incentives.

The utopian thinkers of the 19th century were certain that a global socialist paradise was inevitable. Looking around at the cruel excesses of the industrial revolution, especially in the United Kingdom and the United States, they imagined a future in which harmony would replace struggle and selfless cooperation would replace brutal competition. This was an understandable sympathetic reaction to the suffering brought on by the unrestrained free-market forces that had yet to produce a critical mass of surpluses. (One might point to the world's impoverished billions today and argue that we are still not wealthy enough to trust our welfare to the free market.) Surely, they thought, there must be a better way in a more enlightened future.

This socialist dream was based only in part on discontent with the capitalist status quo. It was also part of a belief in man's fundamentally moral nature. Given the opportunity and sufficient education, the idealists believed, man would sacrifice his immediate self-interest for the greater good. This in turn would eventually create a comfortable surplus for all and put an end to human suffering on a grand scale.

It is possible there would be less suffering in a world in which man desired harmony and contentment more than competition and achievement. But that world does not exist. We are the product of our ancient struggle to survive. And we deny our instincts at great peril. If the market is not free, it must be controlled—and controlled by someone or some group. When confronted with our natural human desire to achieve, an enlightened craving for equality soon turns to enforced equality. Self-generating incentives for moral behavior are replaced by edicts and punishments. Carrots give way to sticks.

I spent half of my life living under such a regime in the USSR. There, the aspirations of every individual were suppressed and fused into what was intended to be one great national destiny. But without the voluntary participation of the citizenry, moral character cannot be mandated or imposed without destroying free will itself. The Soviet Union rapidly descended into totalitarianism and terror, as did other Communist states.

The alternative is not anarchy; a society is not a society worth living in without the rule of law and protection for minority political, religious, and business groups. Rather, the alternative is a system in which individual freedoms are combined with incentives to act morally. The free-market economy—along with democracy, which is the free market of ideas—is the closest that we have come to that.

So, yes, the free market can lead to the corruption of moral character. It is man's nature always to want more, and the free market enables these urges with few protections for those who fail to thrive. But attempting to restrain these basic human needs and desires leads to greater evils. All the needed evidence can be found over the last century in Russia, from the czars to the Soviets to Putin's oligarchic regime today.

Qinglian He

No.

Qinglian He is a Chinese economist and a former senior editor of the Shenzhen Legal Daily. *She is the author of* The Pitfalls of Modernization: The Economic and Social Problems of Contemporary China *and* The Fog of Censorship: Media Control in China.

Over the past several centuries, the world has seen the many ways in which an active free market spurs material and social progress while at the same time strengthening moral character. By contrast, people who have lived under the free market's primary modern rival, the ideologically-driven planned economy of state socialism, have suffered as economic performance stagnated, civil society withered, and morality was corroded. In recent decades, as planned economies collapsed under their own contradictions, this utopian experiment has proved to be a systematic failure. Citizens who had endured long years of economic, moral, and political disaster were eager to get rid of them.

Of course, the market economy is not a perfect system. But the market's flaws stem from the actions and motivations of its human participants rather than from its design. Experience has taught us that a free market is closely associated with a free society. And in free societies, people are better able to act in concert to improve their lives. Free societies afford people the opportunity to make their own political and social systems more just. In general, these activities support rather than corrode morality.

From a comparative historical perspective, we tend to define the market as an all-encompassing socioeconomic system, covering economic institutions, social relations, and culture. But when we analyze the relationship between the market and morality, it makes sense to use a narrower definition of the market as the rules that coordinate economic activities.

Is the market or morality the most likely causal factor in our analysis? We must recognize that moral judgments about particular socioeconomic activities are different from moral judgments about the rules of the market. Values and business ethics shape the behavior of economic actors. If their activities result in unfavorable or unintended consequences, we should look for an explanation primarily in the social institutions that nurture the market rather than in market rules themselves.

Discussions about "moralizing the market"—that is, about softening some of the consequences of growth or of the global expansion of the market—are best addressed to the sociocultural priorities of economic actors. States, international organizations, and civilian groups or movements must help to shape new values and moral concerns before they can hope to shape the rules of the market and see more desirable behavior.

All economic activities are embedded in sociocultural circumstances. From 10th-century China to 21st-century Europe, consumption and production have operated according to prevailing moral values. And in all historical contexts, moral vision has always been related to religious belief. For instance, there is a perception today that religious people in East Asian countries tend to be honest in business. By contrast, in contemporary China, where religion was once banned and is still strictly controlled by the state, poor business ethics became rampant as the market economy took root.

Other factors affect moral vision as well. The economic and cultural globalization of recent decades has introduced developing countries not only to new economic institutions but also to the norms and values of the West, which themselves keep changing. The recent hot trends have been ecologically-friendly consumer products and the establishment of international standards for workplace conditions, as in the Social Accountability 8000 Standards developed a decade ago. Both are prominent examples of shifting mores, but the latter has had much more influence on countries like China, where it has improved working conditions in many factories that were once sweatshops.

A dramatic adjustment of moral values is taking place in today's transitional societies, as once-isolated planned economies are being transformed into interconnected market systems. To be sure, the legacy of statist institutions and the role of dominant elites may delay or hinder the adjustment. In Europe, the integration of former Soviet bloc countries into the continent's free-market trading system does not seem to have brought many negative moral consequences. But in China, one can easily find evidence of a decline in both the moral order and business ethics. Political influence and government offices are traded for money, bribes free people from criminal punishment, employers of child labor are rarely punished, and the sale of blood and human body parts is a common practice.

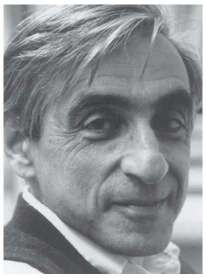
All of these activities are illegal in China, but the government tolerates them. Obviously, the country is still far away from the rule of law. Indeed, it is ruled by a political group that stands above the law. Non-governmental organizations (NGOs) are struggling to fight against these disturbing problems, but their activities are strictly controlled and each one must be supervised by a government office. Rather than take decisive action to prohibit these nominally "illegal" activities, the government makes great efforts to control media reports and Internet discussion about such "negative news damaging to the image of the regime."

So what deserves blame for the de-moralization of development in China—the free market itself or the failures of the state and its exclusive ruling elite? The people who set and enforce the rules of every market play a critical role. This is particularly true in China, where government and party officials make the laws and supervise economic activities even as they themselves seek to make profits. It is their tolerance of immoral activities, not the growth of the free market, that has distorted the moral order of Chinese society.

Based on China's recent experience, I would conclude with three important lessons. First, that despite all the celebratory coverage in the international press, the Chinese government's influence on the market has not been unconditionally positive. Second, that a sustainable and strong market requires a democratic political structure. Third, that pursuing moral development is no less important a task for China than encouraging economic development.

Michael Walzer

Of course it does.



Michael Walzer is professor emeritus in the School of Social Science at the Institute for Advanced Study in Princeton, New Jersey. He is a contributing editor of the New Republic, *co-editor of* Dissent, *and the author, most recently, of* Thinking Politically.

Competition in the market puts people under great pressure to break the ordinary rules of decent conduct and then to produce good reasons for doing so. It is these rationalizations—the endless self-deception necessary to meet the bottom line and still feel okay about it—that corrode moral character. But this isn't in itself an argument against the free market. Think about the ways that democratic politics also corrodes moral character. Competition for political power puts people under great pressure—to shout lies at public meetings, to make promises they can't keep, to take money from shady characters, to compromise principles that shouldn't be compromised. All this has to be defended somehow, and moral character doesn't survive the defense—at least, it doesn't survive intact. But these obvious flaws don't constitute an argument against democracy.

To be sure, economic and political competition also produce cooperative projects of many different sorts—partnerships, companies, parties, unions. Within these projects, empathy, mutual respect, friendship, and solidarity are developed and reinforced. People learn the give-and-take of collective deliberation. They stake out positions, take risks, and forge alliances. All these processes build character. But because the stakes are so high, participants in these activities also learn to watch and distrust one another, to conceal their plans, to betray their friends, and—we know the rest, from Watergate to Enron. They become "characters" in familiar stories of corporate corruption, political scandal, defrauded stockholders, and deceived voters. Let the buyer beware! Let the voter beware!

Is there a way of making political and economic competition safe for moral men and women? It certainly can't be made entirely safe. Free markets and free elections are inherently dangerous for all participants, not only because the wrong people, products, and policies may win out, but also because the cost of winning for the right people, products, and policies may be too high. We don't, however, treat the dangers of markets and elections in the same way. We work hard to set limits on political competition and to open politics to the participation of more or less moral mortals. Politicians aren't widely recognized as moral exemplars these days, in part because they live so much in the media eye, and every sin, every foible, is broadcast to the world.

Nevertheless, constitutional democracies have succeeded in stopping the worst forms of political corruption. We are free from the whims of tyrants, from aristocratic arrogance, from repression, arbitrary arrest, censorship, fixed courtrooms, and show trials—not so free that we don't need vigilantly to defend our freedom, but free enough to organize the defense. Politicians who lie too often or break too many promises tend to lose elections. No, the worst corruptions of our public life come not from politics but from the economy, and they come because we don't have similar constitutional limits on market behavior.

Perhaps the most important achievement of constitutional democracy has been to take the desperation out of politics. Losing power doesn't mean getting shot. Supporters of the losing side are not enslaved or exiled. The stakes in the power struggle are lower than they used to be, which greatly improves the options for moral conduct. The modern welfare state is supposed to do the same thing for the economy: it constitutionalizes the market by setting limits on what can be lost. But in fact, in the United States at least, we don't have much in the way of market constitutionalism. For too many people, the competitive struggle is pretty close to desperate. What is at risk is the survival of a family, healthcare for the children, a decent education, dignity in old age. And risks like those don't leave a lot of room for morality. Decent people will act decently, and most people are decent when they can be. Still, the effects of the struggle are steadily corrosive.

Another achievement of constitutionalism has been to set limits on the political power of the most powerful men and women. They must live with countervailing powers, opposition parties and movements, periodic elections, a free and sometimes critical press. The primary point of these restraints is to minimize the harm that already corroded characters can do. But some of our politicians actually internalize the restraints, and that is an important character-building process.

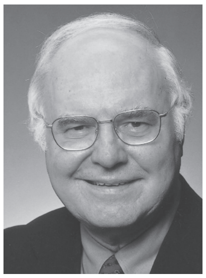
Market constitutionalism would set similar limits on the economic power of the wealthiest men and women. But again, obviously, we don't have much of a market constitution. Restraints on economic power are very weak; the countervailing power of labor unions has been greatly reduced; the tax system is increasingly regressive; the regulation of banking, investment, pricing policies, and pension funds is virtually nonexistent. The arrogance of the economic elite these last few decades has been astonishing. And it stems from a clear-eyed view that they can do just about anything they want to do. That kind of power, as Lord Acton wrote years ago, is deeply corrupting.

The corruption extends to politics, where the influence of money, earned without restraint in an unrestrained market, undermines the political constitution. You need money, let's say, to run a political campaign (for a good candidate or a good cause), and here is someone — a banker, a corporate giant — who has a lot of money and is offering it for a price, for policies or legislation that will improve his market position. The other side is taking money like that, as much as it can get. Whose character will resist corrosion now?

Some might argue: isn't this the way character is tested? If market constitutionalism limits the power of wealth and the welfare state reduces the fear of poverty, don't we make virtue too easy? Easier, maybe, but never very easy. Consider again the political analogy: do we make virtue too easy when we deny Presidents tyrannical power and when we protect the powerless from persecution? The corrosive pressures of electoral competition don't go away. We set limits on those pressures out of respect for human frailty. And if we need to do that with regard to governments, we surely need to do it with regard to markets.

Michael Novak

No! And, well, yes.



Michael Novak is the George Frederick Jewett Scholar in Religion, Philosophy, and Public Policy at the American Enterprise Institute. His more than twenty-five books include The Spirit of Democratic Capitalism *and, most recently,* No One Sees God.

At America's birth, most societies were organized on the foundation of either a landholding aristocracy or a strong military establishment. The American founders rejected these models and argued strenuously that a new society, built upon free commerce, would both engender a higher set of virtues and prove safer for, and more committed to, the rule of law. Such a society would be dedicated not to the pursuit of power but to the creation of plenty. As Alexander Hamilton noted in *Federalist* #12: "The prosperity of commerce is now perceived and acknowledged by all enlightened statesmen to be the most useful as well as the most productive source of national wealth, and has accordingly become a primary object of their political cares." Commerce would distract men from previous sources of division and faction. Their passions would turn from political causes to market activity, and the spirit of cooperation necessary for free markets would gradually attach their loyalties to the larger republic.

A commercial society also would be far, far better for the poor, and it would have a beneficent effect on public and personal morality. Through their careful study of history, the founders had learned that a society rooted in military power tended to become touchy and erratic—too quick to fight wars of injured pride—at great and repetitive expense to the poor. Generation after generation had seen scant progress out of poverty, the Scottish philosopher David Hume averred. Wars of honor and revenge and quarrels among emperors, monarchs, and barons repeatedly erased any small steps of progress made by the poor.

As for landed aristocracies, their courts were too given to diversions, entertainments, seductions, and decadence. Even though many chivalrous barons and counts were good soldiers and raised their own armies, their lives were idle on the whole. They lived easily off the fat of their own spreading properties and the labor of peasants. They trained armies in order to use up their own agricultural surpluses, which primitive roads and the absence of the rule of law (outside major cities) prevented from becoming a source of productive commerce.

Organizing a new society on the basis of aristocracy or the military would not be safe for a republic, the American founders concluded. A republic would need independent, self-made, inventive, creative men, unafraid to get their hands dirty, proud of being hard workers, much taken with innovation, and determined to find better (often less onerous) ways of doing things. Independence and innovation, leading to a constantly improving common good, would be the fruits of a commercial society, at least for a free republic such as the infant United States.

Furthermore, the founders thought, a society built upon commerce would have to establish personal accountability before the law. Without a law-abiding society, relying on courts to enforce contracts, how could men and women engaged in commerce take large risks before they had even received full payment for their efforts? Ships sent from New England to bring back tea from Asia had to be paid before they could return and sell their cargo. Pirates would need to be fought, not only by written law but by law enforced at gunpoint upon the high seas (thus Jefferson's campaigns against the Barbary pirates). No wonder the motto of Amsterdam, then one of the great commercial capitals of the world and an object of the founders' admiration, was *Commercium et Pax:* Commerce fosters peace. Commerce is what neighbors exchange with each other peacefully, rather than simply seize in warfare.

Our forebears believed that a commercial society would instruct all its members in hard work, regularity, and innovation. It would also teach Americans to be bold in adventure (like the New England sea captains), modest in their expectations of gain, and thrifty in their repeated reinvestment of gains for the sake of future compounding. These activities would be an alternative to the conspicuous consumption of the old landed aristocracy. A commercial society encouraged an honest, responsible, self-denying, and future-oriented citizenry. Such a citizenry is especially needed to make free republics law-abiding and prosperous.

Because the roots of commercial society—habits of innovation and invention, the blessedness of hard work, a focus on the future—spring from imperatives in the Jewish and Christian religions, it was not too long a stretch for America's founders to recognize the crucial role of religion and morality in curbing commercial instincts, keeping them within bounds and steering them from self-destruction. "There are many things that the law does not prevent citizens from doing that the religion of Americans prevents them from doing," Tocqueville noted approvingly.

On the other hand, the successes of a commercial republic also produce, over time, various enervating influences that corrode the moral strength of societies. Younger generations take for granted the prosperity won by the sacrifices of their forebears. Some want escape from the disciplines of a commercial republic, and some have contempt for the restrained manners and mores of their ancestors. Generations inured to hard work and self-discipline can give way to new generations that hear other music blowing in the wind and long for rebellion, preferring to luxuriate in idleness rather than to engage in menial work. A generation committed to saving for tomorrow is replaced by a generation heedlessly living just for today.

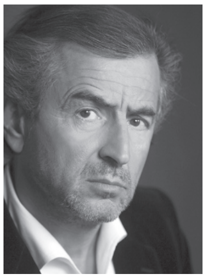
In such ways, the very successes of a commercial republic tend to undermine the moral stamina of the young. The sociologist Daniel Bell dubbed these cyclical turnings of the wheel "the cultural contradictions of capitalism." In other words: strong morals in, but over time, loose morals out.

We can see all around us the opportunity for accelerating moral decadence. But such moral decadence is only a possible outcome, not a necessary one. Well warned against it, we can make special efforts to overcome its attractions. In this way, the greatest task of a commercial society becomes moral and cultural deepening, a return to spiritual roots, what our forebears called a "Great Awakening."

By the reckoning of the Nobel Prize-winning economist Robert Fogel, the United States is now in the slow upsurge of a Fourth Great Awakening. It is characterized by a return to basics, an emphasis on family, and an invitation to the young to develop the self-nourishing habits of will and mind that are the best guarantors of strong character. Such young people are the best hope of the future vitality of our republican liberties and commercial creativity.

Bernard-Henri Lévy

Certainly. Or does it?



Bernard-Henri Lévy, the French philosopher, has written more than thirty books, including the New York Times *bestseller* American Vertigo *(2006) and, most recently,* Left in Dark Times: A Stand Against the New Barbarism *(2008), both published by Random House.*

It is clear that the ferocious competition of interests and passions, the mad rule of money, and materialism as the measure of all things — in short, the free market, released from all rules and governed only by the greed of the most powerful — fatally corrodes our souls. This is what the great Aleksandr Solzhenitsyn thought at the end of his life.

This view was shared by the family of French thinkers of the 1930s called the "non-conformists," which included Charles Péguy and a few others. They saw commodity exchange as a source of depersonalization. It was also the thesis of an entire group of Christian (or simply spiritualist) thinkers who saw in the idea of the "free market" the death of moral values and the end of man's faith and aspiration to the absolute.

It was also — and this should put us on alert — one of the main themes of fascism and one of the reasons the masses were seduced by it. "Stop materialism!" it was proclaimed. "Put an end to destructive individualism and the social atomization against which fascism presents its good, safe, organic, and natural communities!" In short, watch out for the rule of "generalized equivalence" among human values (another term for the "market"), which the fascisms of every age have found anathema.

So then?

Well, the problem is actually more complicated than it seems. We cannot — we *must* not — declare, as if it were a definitive truth, that the market simply and only corrupts. Three corollaries must be added to this seemingly obvious common-sense contention. First, if the market corrupts, the various negations of the market corrupt absolutely. Look at fascism. And look at that other hatred of the market that preceded and followed it: Communism. I doubt that anyone would posit Communism as the fulfillment of character and soul for its victims or agents.

Second, if it is necessary to choose, if these corruptions must be ranked, it is patently obvious that the Communist or the fascist corruption through the negation of the market is significantly deeper, deadlier, and more irreparable than the first. That was obvious for fascism from the start, and it eventually became obvious for Communism too. I think back to the long journey I made through Central and Eastern Europe just after the fall of the Berlin Wall. I can still hear my Czech, Polish, Bulgarian, Hungarian, and East German friends explaining to me that the Communist era, those long decades in a society not at all governed by the rules of the market, had caused them, in their hearts and souls, to develop a certain number of vices, even defects — and that they themselves did not know how long it would take to get rid of them.

Consider, for example, the habit of acting irresponsibly, that is, the inability to take risks, even to make decisions. I vividly recall an East German engineer who seemed perfectly normal, a democrat in her soul and a dissident for years, but who burst into tears the day I asked her to lay out the itinerary for the day we would be spending together. "They taught me not to decide," she said, between sobs. "It is like an amputation, an excision, as if they physically came in and corroded a section of my brain." Imagine a deep selfishness with neither nuance nor recourse, much more radical than the self-interest of market societies. From the viewpoint of those who survived, that is the true balance sheet of Communism. These are the proofs of corruption, of a corrosion of character, brought about by the actual absence of a free market.

Finally, a third corollary: because it develops the qualities of taking initiative and making decisions, because it places individuals into relationships with each other, because it is a regime that makes sense only if its subjects relate to one another—the free market remains, all in all, a factor promoting socialization, a means of connecting human beings, even of creating fraternity or, in any case, mutual recognition. Hence, it is the opposite of corruption. We should read Hegel's texts on the dialectic of recognition in the development of modern consciousness. We should read Emmanuel Levinas on the question of money (a question that is tricky, nearly cursed, in my own country). He argued that, far from isolating and atomizing individuals, money is, in fact, the medium of their interchange. And so, finally, it is necessary to conclude that there are good uses for the market, since it is one of the means that human beings have found to resist the all-out war of everyone against everyone else, diagnosed first by Hobbes and then by Freud.

Does the free market corrode moral character? Well, undoubtedly no. It even reinforces our moral defenses, giving us the capacity to say no and to disagree. Naturally, this is on the condition that we willingly submit to the rules and refuse the temptation of the jungle and of untamed capitalism. The market, to borrow Winston Churchill's famous phrase about democracy, is the worst solution, except for all the others.

(Translated from the French by Sara Sugihara.)

Kay S. Hymowitz

Yes, too often.

Kay S. Hymowitz is the William E. Simon Fellow at the Manhattan Institute and a contributing editor at City Journal. *Her most recent book is* Marriage and Caste in America: Separate and Unequal Families in a Post-Marital Age.

Critics rightfully grasp that the free market undermines the traditional, local arrangements that people depend on to teach and sustain morality. Consider especially the experience of children. They first learn morality from their families, with whom they are most emotionally bonded. Love attaches children to moral conventions and arouses essential moral emotions like sympathy and guilt. In a preindustrial society, these moral habits are further reinforced by the tribe or the village, as well as by religious institutions and folk tales. The developing child is surrounded by a kind of conspiracy of moral teachers, demonstrating lessons of character by word and (less reliably) by deed.

Market economies weaken this cultural conspiracy in three powerful ways. First, they introduce novelty, which challenges established cultural habits and moral verities. Second, they stir up individual desire in ways that can easily weaken the self-discipline and moral obligations that make free markets flourish. (As the sociologist Daniel Bell famously argued, markets can end up cannibalizing their own moral infrastructure.) And third, as they advance, market economies become more likely to treat the yet-to-be-socialized child as an autonomous, adult-like actor rather than as an immature dependent. They often turn the pliant student of moral obligations into a skeptical, even resistant peer.

Two of the most influential new products of the 20th century, the automobile and the television, perfectly illustrate the market's potential to dilute moral consensus and personal loyalties. By exporting insiders and importing outsiders, the car reduced the sway of the local community and its moral requirements. By taking fathers to jobs far from home, it accelerated the separation of work from family life. Indeed, market evolution was the direct cause of the "separate spheres" that placed mothers at the helm of domestic life and fathers at a distant workplace.

The car also scattered family members (uncles and aunts to California, grandparents to Florida) who previously might have buttressed the child's developing moral sense. It increased opportunities for anonymity, which made it easier to escape shame and embarrassment over violations of moral behavior, and allowed individuals, especially teenagers, to avoid the judgmental eyes of adults. In the early 20th century, a juvenile court judge, noting the unexpected use to which young people were putting the new invention, grumbled that the horseless carriage was nothing more than a "brothel on wheels."

The cultural disruption wrought by television, and particularly by advertising, has been even more troubling than that of the car. Before the advent of the small screen, families could expect to do most of their moralizing work safe from commercial intrusions. Family life could be imagined as a "haven in a heartless world," in the words of the sociologist Christopher Lasch. Salesmen may have come to River City, but they had to knock on doors and ply their band uniforms and instruments to domestic gatekeepers, usually mothers.

Television allowed the salesmen to push past parents and sit down right next to the unmoralized child, tempting him with pleasures against which he had few defenses. More generally, television uses fantasies of revenge, violent mayhem, sexual license, and material excess to lure viewers, young and old.

Of course, today the Internet is usurping television's long-held status as the chief sponsor of hedonism, materialism, and anarchic egotism. If broadcast television had censors who clumsily expressed a cultural consensus about acceptable public speech, the World Wide Web knows no bounds. Moreover, just as the automobile gave provincial people new opportunities for anonymity, the Internet allows children to escape the limitations of their status. Nothing better symbolizes the market's penchant for turning the child into a pseudo-adult, for undermining parental authority, and for fostering shame-escaping anonymity, than the 13-year-old girl arranging a rendezvous with a 40-year-old man on an Internet chat room while her parents assume she is doing her homework.

But all the news is not bad. Even though the market has undermined the power of community norms and loaded sole responsibility for moral teaching onto the shoulders of individual parents, all the while bombarding kids with the likes of *Grand Theft Auto* and Paris Hilton, it has yet to bring us Gomorrah. In the United States, indicators of juvenile moral health, like rates of violence and promiscuity and rebellious attitudes toward adults, have declined in recent decades even as the electronic media have increased the market's reach.

Why? One reason is that middle-class parents have reacted to the market's siren calls by intensifying their watchfulness. Their efforts have sometimes been ridiculed, and for good reason. But hyper-parenting is an understandable response to the dislocations that come with free-market innovation and actually attests to the resilience, at least among the middle class, of the bourgeois family, which evolved in response to capitalism. In communities where mothers have gone to work, extended families have moved away, and strangers and cars roam, parents continue to supervise their children through the use of cell phones, extracurricular programs, surrogates like tutors and coaches, and, alas, Internet spying programs and even GPS devices.

The relative moral health of the young has also been bolstered, it must be said, by the free market's relentless encouragement of self-discipline. To succeed in today's knowledge economy, young people understand that they must excel at school. Despite the temptations of consumerism, middle-class and aspiring immigrant children grow up knowing that education is crucial to maintaining or improving their status and that competition in the knowledge economy is keen. In an earlier day, children imbued with the Protestant ethic did their chores and minded their p's and q's. Today's kids go to cram schools and carry 40-pound backpacks.

So does this mean that critics of the market have been proved wrong? Not exactly. The free market's celebration of hedonism and autonomy has had its predicted effect on those with less cultural capital—the poor and, more recently, the working class. In low-income communities, the assault on norms of self-restraint and fidelity in personal relations has undermined both the extended and the nuclear family. In many such communities, divorce and out-of-wedlock births are becoming the norm. The work of moralizing the next generation in an advanced market economy is difficult under the best conditions. For single mothers in low-income communities, where schools are chaotic and responsible males are few and far between, it may be close to impossible.

Tyler Cowen

No, on balance.

Tyler Cowen is Holbert C. Harris Professor of Economics and director of the Mercatus Center at George Mason University. His latest book is Discover Your Inner Economist, *and he blogs at www.marginalrevolution.com.*

In matters of morality, the free market functions like an amplifier. By placing more wealth and resources at our disposal, it tends to boost and accentuate whatever character tendencies we already possess. The net result is usually favorable. Most people want a good life for themselves and for their families and friends, and such desires form a part of positive moral character. Markets make it possible for vast numbers of people, at every level of society, to strive for and achieve these common human ends.

Other features of the free market also encourage the better angels of our nature and discourage our destructive impulses. People who are good at cooperating with others tend to be better money-makers, for instance. They find it easier to work with fellow employees, easier to communicate with customers, and easier to pitch a business plan to venture capitalists. The more we are rewarded for such cooperation, the more our characters move in a cooperative direction.

In a more personal sense, the free market also allows people to realize a range of good intentions. Markets allow productive people to provide extraordinary service to generations of their fellow human beings: by inventing new drugs, developing labor-saving devices, or finding cheaper, more efficient ways to supply the world with food. The chance to become wealthy is often an incentive for such creative types, and ego and ambition are also prime factors. But we should not confuse these motivations with bad character. Markets make it possible to harness our desire for wealth and personal distinction to our more altruistic impulses. They spark us to do good by doing well. And, of course, they create the means for people to donate their wealth and labor to a range of philanthropic causes.

From an international point of view, the moral attractions of markets are clear. Consider immigration. Across the world, people tend to migrate to market-friendly societies and away from market-unfriendly societies—and money is not the only motivating factor. They are also drawn by the opportunity to live under a system that offers a better quality of life, and especially by the opportunity to escape from the morally degrading favor-seeking of many other economic arrangements. Every year, Transparency International issues an index of the most corrupt places in the world to do business. The countries topping last year's list were Iraq, Myanmar, and Somalia. The least corrupt countries were Denmark, Finland, and New Zealand, all of which have active market economies.

Does this mean that markets have *caused* the lack of corruption? No, but it is obvious that the rise of markets and the decline of corruption are part of a common and consistent thread of progress. One of the most important functions of markets is to create a consensus around certain moral expectations: that agreements should be binding, that honesty is expected in transactions, that economic actors are held accountable for broken promises. All of these ideas have positive social consequences far beyond the realm of commerce, as any observer of modern market societies can see.

Some qualifications are in order. Not all markets are "free," in the sense of having well-enforced laws against aggression and fraud. Free markets also require a certain baseline level of trust and a shared cultural understanding of market rules. "Corrupted" markets, as I would call them, do not meet these criteria. They allow evildoers, such as hit men and the mafia, to commit crimes, and they give deceptive businesses the means to sell tainted or defective products or (borrowing from recent headlines) to pawn off mortgages that are too good to be true.

Nor should we deceive ourselves by thinking that the broader definition of self-interest encouraged by markets is always noble. Trying to advance the aims of your family, friends, and community certainly has a positive moral dimension, but it can also be accompanied by envy, greed, self-deception, and a variety of other human imperfections. By making more social activity of every kind possible, the market creates greater scope for these vices.

As observers of economic life, many of us (especially if we happen to be journalists or academics) focus too often on these sorts of negative examples. But we need to take a wider view of human progress. In the midst of our own long era of economic growth and expansion, it is obvious that the positive features of markets decisively outweigh their negative features. This is true not only because of the practical and material benefits of wealth creation but because of its beneficial effect on personal morality as well.

Robert B. Reich

We'd rather not know.

Robert B. Reich is professor of public policy at the University of California at Berkeley. He has published twelve books on public policy and has served in three national administrations, most recently as secretary of labor under President Bill Clinton.

Most of us are consumers who try to get the best possible deals in the market. Most of us are also moral beings who try to do the right things in our communities and societies. Unfortunately, our market desires often conflict with our moral commitments. So how do we cope with this conflict? All too often, we avoid it. We would rather the decisions we make as consumers not reflect upon our moral characters. That way we don't have to make uncomfortable choices between the products and services we want and the ideals to which we aspire.

For example, when the products we want can be made most cheaply overseas, the best deals we can get in the marketplace may come at the expense of our own neighbors' jobs and wages. Great deals also frequently come at the expense of our Main Streets—the hubs of our communities—because we can get lower prices at big-box retailers on the outskirts of town. As moral actors, we care about the well-being of our neighbors and our communities. But as consumers we eagerly seek deals that may undermine the living standards of our neighbors and the neighborliness of our communities. How do we cope with this conflict? Usually by ignoring it.

Similarly, as moral beings we want to think of ourselves as stewards of the environment, intent on protecting future generations. But as consumers, we often disregard this moral aspiration. Many of us continue to buy cars that spew carbon into the air, and some of us spend lots of time flying from one location to another in jet airplanes that have an even greater carbon footprint. And we often buy low-priced items from poor nations in which environmental standards are lax and factories spill toxic chemicals into water supplies or pollutants into the air. How do we square our moral stand on the environment with our purchasing habits? Beyond buying the occasional "eco-friendly" product, we typically don't even try.

Our market transactions have all sorts of moral consequences we'd rather not know about. We may get great deals because a producer has cut costs by setting up shop in poor nations and hiring children who work twelve hours a day, seven days a week, or by eliminating the health and pension benefits of its American employees, or by cutting corners on worker safety. As moral beings, most of us would not intentionally choose these outcomes, but as seekers of great deals we are ultimately responsible for them.

We usually avoid addressing the conflicts between our market impulses and moral ideals in two ways. First, if we learn of morally objectionable outcomes such as those I have described above, we assign responsibility for them to producers and sellers rather than to ourselves as consumers. We believe, for example, that big-box retailers are wholly responsible for giving their employees low wages and for draining business away from Main Streets, or that automakers are responsible for producing cars that emit so much carbon pollution.

Yet this logic is flawed. Producers and sellers usually have little choice but to cut costs as low if not lower than their competitors. Our own incessant demands for great deals require them to do so. They know that if they fail to offer us what we want, we're likely to take our money to their competitors. The morally objectionable outcomes we blame them for are often the inevitable side effects of their attempts to respond to our own demands for great deals.

The second way we avoid facing up to these conflicts is by compartmentalizing our market desires from our moral visions. We in effect "launder" our money through the market mechanism. When we buy from a seller who is the local franchisee of a giant retailer, and that giant retailer obtains the product through a distribution network that gets it from a manufacturer, and that manufacturer assembles specialized components from contractors who employ subcontractors all over the world, the ultimate social consequences of our purchase are so far removed from it that we can easily shield ourselves from moral responsibility. We simply don't see the connection between our consumer choices and, for example, the child laboring in a poor nation or our neighbors losing their jobs and wages.

To be sure, some consumers do shop with an eye to these far-removed moral consequences, and some companies pride themselves on selling goods and services produced in socially and morally responsible ways. But the evidence shows that most consumers want only the great deals. Even if we like to associate ourselves with responsible brands, most of us don't want to pay any extra for responsible products.

The market does not corrode our character. Rather, in these two ways it enables us to shield ourselves from any true test of our character. It thereby allows us to retain our moral ideals even when our market choices generate outcomes that would otherwise violate them.

If the market mechanism were so transparent that we could not avoid knowing the moral effects of our buying decisions, presumably we would then have to choose either to sacrifice some material comforts for the sake of our ideals or to sacrifice those ideals in order to have the comforts. That would be a true test. Absent such transparency, we don't need to sacrifice either. We can get the great deals and simultaneously retain our moral scruples without breaking a sweat.

Ayaan Hirsi Ali

Not at all.

Born in Somalia, Ayaan Hirsi Ali emigrated in 1992 to the Netherlands, where she served as a member of parliament from 2003 to 2006. She is the author of the bestseller Infidel *and a research fellow at the American Enterprise Institute.*

There is little consensus on what is moral, let alone on what corrodes morality. A man of faith measures moral character by one's ability to abide by the demands of his God. A socialist might measure moral strength by one's dedication to the redistribution of wealth. A liberal — by which I mean a classical, Adam Smith or Milton Friedman liberal, not a liberal in its American meaning of "pro-big government" — might be religious, and he might see the merits of income equality, but he will always put freedom first. This is the moral framework to which I subscribe.

According to this school of thought, freedom of the individual is the highest aim, and the ultimate test of a person's character is his ability to pursue his own chosen goals in life without infringing upon the freedom of others to pursue their own goals. From this perspective, free economic activity among individuals, corporations, and nations boosts such desirable qualities as trust, honesty, and hard work. Producers are compelled to continually improve their goods and services. The free market establishes a meritocracy and creates opportunities for better jobs for those students who work hard at school. The same mechanism pushes parents to invest more time and money in the education of their children. Producers invest in research and innovation to beat their competitors in the marketplace.

To appreciate just how effectively the free market strengthens moral character, it is helpful to glance at economic systems that undermine or openly reject it. Everywhere Communism has been tried, for instance, it has resulted not just in corruption and sub-standard products but also in fear, apathy, ignorance, oppression, and a general lack of trust. The Soviet Union and pre-reform China were morally as well as economically bankrupt.

Or consider the feudal order typified by Saudi Arabia. There we see an absolute monarch, a religious hierarchy that reinforces the ruling family's hold on power, and several classes of serfs: the oppressed Shi'a minority, the vastly exploited underclass of immigrant workers, and women, who are confined and abused. The stagnation and oppression of Saudi society make it utterly immoral in the eyes of a classical liberal. Unlike Communism, it cannot even proffer the fig leaf of greater "fairness."

Free markets have their moral flaws. I can see why critics find it difficult to detect morality in a market system that allows young girls to earn vast wealth for swaying and warbling on TV and young men to become obscenely prosperous because they can hip-hop to drug-induced rhythmic heights. A legitimate debate also exists between proponents of entirely free markets and those who suggest that vital services such as healthcare and education require a measure of government oversight.

To my mind, the extent of government welfare services in Western Europe is excessive and counterproductive; it discourages innovation and rewards dependency, corroding moral fiber and individual responsibility by encouraging people to become lazy and dependent on the state for things they could (and should) do for themselves. In a free-market society, where liberty comes first, individuals tend to be more creative and to innovate; in welfare states that assign priority to equality, the natural resourcefulness of human beings is perverted. To become successful, you must learn how to "work the system" rather than how to develop a better product. Risk is avoided, and individual responsibility is thwarted. Although superficially the system may appear fair, it promotes mediocrity and a sense of victimhood, and it discourages those who want to excel.

Free-market societies are under fire from environmentalists today for supposedly ruining the planet. But the passionate debate about global warming and the moral implications of waste and pollution has arisen only in politically free societies. Moreover, as governments debate whether global warming is really man-made, economic actors have already begun to incorporate these concerns into their production and investment. They have begun taking measures to build more fuel-efficient cars and to create affordable systems to provide alternative sources of energy. Greener-than-thou marketing is a strong force among a certain sector of consumers. Corporations and firms do this because they are rational economic actors. Companies that are greener may actually make more profits than those that ignore environmental morality.

Are the rich always greedy? There are many wealthy, decadent, and vapid people in America. But there are also many very active philanthropists, and indeed, thanks to some of the wealthiest people in the country, there is a marked improvement in public awareness in the fight against various epidemics. The goal of wiping out malaria, for instance, might sooner be achieved by private investors than by states or UN bureaucrats.

These fortunate men and women also take pride in their contributions to such cultural goods as libraries, concerts, museums, and, lately, a cleaner planet. The very active individual philanthropy that characterizes America may be a function of the tax code, but that is interesting in itself: a well-framed free market can be more effective in improving the common good than a bloated international bureaucracy operated by governments.

For those seeking moral perfection and a perfect society, a free market is not the answer. In the course of history, the search for perfect societies — that is, the failure to acknowledge human imperfection — almost always ended in one or another form of theocracy, authoritarianism, or violent anarchy. But for those who seek to work with human flaws of every stripe, and to increase the sum total of individual happiness, the free market, combined with political freedom, is the best way.

America is imperfect, chaotic, sometimes decadent, and often rough on the weak. But its moral standards are far higher than those of history's other great powers.

John C. Bogle

It all depends.

John C. Bogle is founder and former CEO of Vanguard and president of the Bogle Financial Markets Research Center. His many books include The Little Book of Common Sense Investing *and* Enough: True Measures of Money, Business, and Life, *which will be published this fall.*

The answer depends completely on what kind of market we are talking about and what we mean by "moral character." Today's supposedly "free market" could be described more accurately as a "fettered" market. Our financial and corporate regimes fall well short of the classic assumptions of perfect structure, perfect competition, and perfect information.

In the first edition of *Economics: An Introductory Analysis*, a textbook that I read during my sophomore year at Princeton in 1948, the Nobel laureate Paul Samuelson aptly summed up the issue: "the problem with perfect competition is what George Bernard Shaw once said of Christianity: 'the only trouble with it is that it's never been tried.'"

Another Nobel laureate, Joseph E. Stiglitz, has been even tougher on the recent failures of the free market. A former World Bank chief economist, Stiglitz notes that the corporate scandals of the last several years "involved virtually all of our accounting firms, most of our major banks, many of our mutual funds, and a large proportion of our major corporations." His conclusion: "Markets do not lead to efficient outcomes, let alone outcomes that comport with social justice."

I would argue that the effect is less causal than corollary. The wellspring of the current financial crisis has less to do with the fundamental character of markets, or of people, than with relatively recent structural changes in the character of our financial and capital institutions. A little more than a half-century ago, we lived in what could be described fairly as an ownership society, one in which corporate shares were largely owned by individual investors. In this society, the "invisible hand" described by Adam Smith in the 18th century remained an important factor. The system was dominated by individual investors, who, pursuing their own self-interest, not only advanced the interests of society but exhibited such positive character traits as prudence, initiative, and self-reliance.

But in recent decades we have become an *agency* society, one in which corporate managers hold control over our giant publicly-held business enterprises without holding significant ownership stakes. Call it managers' capitalism. Similarly, the financial intermediaries that now hold voting control of corporate America are agents for the vast majority of individual investors. In the early 1950s, individuals held 92 percent of all U.S. stocks, and institutions held just 8 percent. Today, individuals hold only 25 percent directly while institutions—largely mutual funds and pension funds—hold 75 percent.

But these new agents haven't behaved as agents should. Too frequently, corporations, pension managers, and mutual-fund managers have put their own financial interests ahead of the interests of the principals whom they are duty-bound to represent, those 100 million families who are the owners of our mutual funds and the beneficiaries of our pension plans. This failure is hardly a surprise. As Adam Smith wisely put it, "managers of other people's money (rarely) watch over it with the same anxious vigilance with which… they watch over their own.… [T]hey very easily give themselves a dispensation. Negligence and profusion must always prevail."

What's more, the free-market system has been debased because our new institutional agents not only seem to ignore the interests of their investor *principals*, they also seem to have forgotten their own investment *principles.* In the latter part of the 20th century, the predominant focus of institutional investment strategy turned from the wisdom of long-term investing to the folly of short-term speculation.

When long-term *owners* of stocks become short-term *renters* of stocks, and when the momentary price of the stock takes precedence over the intrinsic value of the corporation itself, concern about corporate governance is the first casualty. The single most important job of the corporate director is to assure that management is creating value for shareholders; yet that goal is secondary for our new agent/investors.

As for moral character, it is an absolute. One either has it or one does not. So if moral character in our society today is eroding (as I believe it is), it can only follow that fewer of our number display solid character and more of our number do not. Has the change from a free to a "fettered" market contributed to this development? Certainly. The values of our financial and corporate leaders have deteriorated. Not all that many decades ago, the rule seemed to be, "there are some things that one simply doesn't do." Let's call that moral absolutism. Today, the common rule is "if everyone else is doing it, I can do it, too." There can be no other name for this view than moral relativism.

This change helps to explain some of the recent aberrations in the free market. We have seen attempts to administer the prices of the goods and services we sell; the insane rise in executive compensation (30 years ago the average corporate CEO earned 40 times the compensation of the average worker; today the number is more like 500 times); financial engineering in the audited statements of firms in order to present the illusion of sustainable earnings growth; scandalous amounts of money paid to lobbyists hired to shape the law in favor of the rich and powerful; and excess risk-taking and expensive financial innovation by our banking system.

Now that the financial crisis is upon us, however, the burden is largely falling not on the irresponsible few who created it but on the many who, against the counsel of traditional thrift and prudence, were lured into it—namely, the investors in overrated mortgage-backed bonds and borrowers whose homes are being foreclosed at record levels. "Fettered" capitalism has indeed corroded our moral character, by both privatizing the rewards of the market and (in the form of federal bailouts) socializing its risks. Both are betrayals of the free market and its genuine virtues. Our society has a huge stake in demanding higher moral values in a less fettered market system.

Rick Santorum

No.

Rick Santorum, a U.S. Senator from Pennsylvania from 1995 to 2007 and a member of the U.S. House of Representatives from 1991 to 1995, contributes a twice-monthly column to the Philadelphia Inquirer *and is a senior fellow at the Ethics and Public Policy Center in Washington, D.C.*

In fact, markets require moral character if they are to be truly free, and truly free markets, in turn, promote moral character. But free markets are no guarantor of moral character. As today's cultural environment shows, the free market tends to heighten certain moral risks.

As a politician, I might seem less qualified to answer this question than an economist. But as a politician, I have learned a great deal in the many years I've spent discussing freedom, morality, and economics with thousands of Americans. These experiences have taught me that the most important word in "free market" is "free"—that a free market is more of a political and moral reality than an economic one.

The free market depends on and rewards many human virtues. For example, market actors must develop the virtue of prudence—carefulness, foresight, and good judgment about the best way to apply a general rule in particular circumstances. Market actors must make and keep promises, even when an error in judgment means a particular promise is not profitable to keep. These habits result in increased social capital, which is the best lubricant for the free-market machine.

Success in the free market depends on industry and diligence. Lazy and unfocused participants don't last long in business. Moreover, direct participation in a free-market economy promotes self-reliance and healthy individualism. Participants develop the habit of seeing problems as opportunities and of solving them by their own effort.

But here we encounter our first check. Critics often charge that free markets and the profit motive promote an unhealthy, selfish individualism that elevates self-concern above all else and slights social obligations. But individualism is perfectly compatible with social solidarity and charity toward others. In fact, healthy individualism—an individual's belief in his own power to provide for himself and his family and to bring about needed social change—is the necessary precondition of solidarity with peers and charity toward others in need. Indeed, as George Gilder has eloquently argued, actors in a market economy are inherently oriented toward service to others: they discover others' reasonable needs and satisfy them with useful goods and services.

Though market economies tend to promote and reward many virtues, we should not equate free-market economics with virtue and morality. First, markets cannot exist without underlying moral norms, rights and obligations such as private property and peaceful exchange. Many economists explain basic moral questions such as ownership, the illegitimacy of theft, and even the illegitimacy of slavery in terms of the supposed "efficiency" of such norms. They're welcome to do so. But it is impossible to derive the basic norms that make free markets possible from free-market principles themselves. The reason: "efficiency" analysis depends on voluntary and peaceful exchange, which depends on the social or legal enforcement of a preexisting moral order.

Second, while free markets can contribute to virtue and morality, they are by no means their guarantor. Market factors such as the profit motive can become unbalanced and over-prioritized, leading to greed and selfishness. The solution is not to condemn the market economy, but rather to teach its participants to focus on service to others both inside and outside of economic exchanges, and to keep profit and self-interest in balance with family, community needs, and the promotion of trust and other social goods. Also, the basic market principle of profiting by serving others' needs can lead to problems if the "needs" being met are vices. Though market actors must be careful not to impose a narrow Puritanism on their customers and clients, there are points where the pursuit of profit can cross clear moral boundaries.

This tension poses a broader question beyond free markets: does freedom itself corrode moral character? Looking at the dismal state of contemporary American culture, one might be tempted to answer "yes." We are constantly bombarded with grim statistics about the state of moral decay, from pornography and marital infidelity to drug use and crime. This decay has resulted from the devolution of liberty, best defined as freedom with responsibility, into license, the freedom to do whatever you want irrespective of its effect on others.

The American founders' conception of liberty as a purposeful freedom, oriented toward something more important than self, diverges sharply from today's pop-culture view of freedom as a freedom from any restraint on immediate urges and desires. Pope John Paul II rightly distinguished between the true freedom of doing what you ought to do in a way that makes use of your unique situation and talents—the freedom of means—to the false freedom of doing whatever you want, however base the goal or desire—the freedom of ends. Human ends and human goods, given to us by our nature, are not things we can freely define and redefine. We thrive not when we do whatever we want in the moment but when we choose higher goods and longer-term goals. This kind of human thriving requires self-discipline and creativity.

Ultimately, as we find all too often today in the United States, the licentious view of freedom leads to a disregard for the moral and licit. This tendency actually leads to less freedom, because people become enslaved to their own passions and end up disregarding the rights and impinging on the freedom of others. This licentious understanding of freedom undermines the proper function of free markets, which depend on honesty, trust, responsibility, self-reliance, and setting and adhering to long-term goals.

Free markets do not corrode moral character, though they may increase the risk of certain kinds of moral problems. And while free markets undoubtedly play an important role in promoting virtue, strong families and communities are required to help foster individual virtue and the freedom this virtue allows. Like other aspects of a free and just society, free markets depend on individual morality—on taming our selfish passions and impulses and choosing the goals given to us by Nature and Nature's God.

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300 Conshohocken State Road, Suite 500
West Conshohocken, PA 19428
Tel: 610.941.2828 | Fax: 610.825.1730

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