

Beyond Supply and Demand: The Moral Foundations of the Free Market

- Mark T. Mitchell, Government Department chair and political theory professor at Patrick Henry College.

In what follows, I want to suggest that a free economy is only sustainable if it is rooted in a moral order that goes beyond supply and demand. Unless a free market is nested within a larger context – a moral context – it is not going to be beneficial or sustainable.

Let's start with some key terms. First, efficiency. We must ask, when we think of efficiency, "efficient for what?" As soon as we start asking this, we have to answer some hard questions because efficiency is a term that refers only to means and not to ends. What are the ends that are proper to a certain action? How are those ends determined? Are those ends determined merely based on desire? Or are there goods that are proper and fitting for human beings? Are there real human goods?

Next let's consider growth. We hear about our lagging economy and politicians wring their hands and propose strategies to "grow the economy." We must, however, consider the morality of growth. We can imagine various ways of growing the economy. For example, we could legalize prostitution, legalize all trade in narcotic drugs, and we could discourage marriage and thereby double the number of households. But these are not examples of good growth. As soon as we ask the question of whether growth is good or bad, we are asking moral questions that go beyond supply and demand.

Scale is a concept that we frequently overlook. We often imagine that bigger is better. We assume economies of scale will necessarily provide goods at better prices and be socially benign. The German economist Wilhelm Röpke (d. 1966) was concerned with that type of thinking. Let me be clear: big is not necessarily bad, but if we assume automatically that big is somehow better than small, we have forgotten to ask the question of value. Röpke called this way of thinking "the cult of the colossal." He said it meant, "The kow-towing before the merely big." He thought that we had lost the ability to think in terms of quality. We have become comfortable thinking primarily in terms of quantity. If we want to set the questions of quality aside, we have abandoned the possibility of thinking in moral terms. We must address moral questions to decide what scale is most suitable to human flourishing. But as soon as we put matters in these terms, we must push further: What does it mean to flourish as a human being?

What is a human being? What is good for a human being? What ends are suited to a human being? When we start thinking in these terms, economic thinking seems to require that we push from economics proper into philosophy. The idea of human scale is something that other speakers have addressed. Karl Marx was no champion of the free market, but he seems to have accurately predicted the tendency among capitalists to expand enterprises beyond human proportions. Marx understood that the centralization of economic power goes hand-in-hand with the centralization of political power. Our recent experience with "too-big-to-fail" and government bailouts seems to confirm this suspicion.

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The concept of human scale teaches us that institutions and organizations have a size and scope that is proper to human flourishing. Here's a simple example. Imagine you are a member of a committee. You have been tasked with writing a document. There are 1000 members on the committee. How effective do you think this committee will be? We must concede that there is a proper scale for a committee. This same line of thought can be applied to institutions, buildings, schools, and businesses. There is a point at which making something larger undermines the human goods that are supposed to be served.

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Our discussion of economics should, at some point, lead us to inquire into the nature of the discipline itself. Some economists have been tempted to imagine that economics is a science in the same way that physics is a science. Physics, of course, gives us definite solutions to definite problems. If you throw a bowling ball off the roof of a building, you can, as a physicist, anticipate exactly where it is going to land and when. Economics is not nearly as clean. Economics is a social science, and the social sciences have always longed to be like physics because physics offers such definite answers. However, the biggest problem preventing the social sciences from being like physics is human beings. Human beings aren't like bowling balls because human beings have the capacity to choose.

In trying to become a science, economics has come a long way from its humble beginnings. Economics was initially a moral science and therefore not something that could be separated from questions of ethics or the human good. What are the implications of this claim? First, if economics is a moral science, then it is going to admit, and not shy away from, the discussions of limits. That is, there are some things that human beings ought to do, and conversely, there are some things that human beings ought not to do. Yet we chafe against the notion of limits. Indeed, liberalism has been rooted in the idea that human beings naturally aspire to emancipation from all limits: social, cultural, and even natural and divine. But the question remains: Are there limits proper to human beings? We are once again pushing economic questions into philosophical questions, which is to say we cannot do economics adequately without going beyond supply and demand.

Edmund Burke believed that limits are necessary for liberty when he wrote, "Men are qualified for civil liberty in exact proportion to their disposition to put moral chains upon their own appetites." Civil liberty is only achievable if individuals are willing to limit themselves, to constrain their own appetites. Self-government is necessary for a free society. If we insist that we are merely free beings beholden to nothing but our own appetites, we destroy the possibility for a free society – and the possibility of a free market. The free market requires virtues such as honesty, self-control, justice, and courage. But these are prior to supply and demand.

For Röpke, a market economy must be fully embedded in a moral society. How can we achieve a moral society? Röpke had some suggestions. First, he thought religion was essential. "The ultimate source of our civilization's disease is the spiritual and religious crisis which has overtaken all of us." He argued that we must recover something that has been lost, something of our inheritance that we have let slip away. A reinvigoration of religious belief would help to encourage a sense of limits, teach moral truth, and cultivate a willingness to delay gratification. Religious beliefs serve to extend our temporal horizons. If we think in terms of tomorrow, or even eternity, our temporal horizons are then shifted from thinking of only the next pleasurable experience.

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On a more mundane level, Röpke argued for the reinvigoration of private property. For Röpke, property is essential, but, at the same time, we must realize that not all property is created equal. There is a distinction between property that is real, tangible, and usable, and property that is primarily abstract. This difference is easily seen between what we could call the "use value" and the "exchange value" of property. Imagine that I own a piece of land. There are many ways I can put this land to use. Or I could sell it. That piece of property has both use value and exchange value. There is another kind of property that we might call abstract property. Abstract property has only exchange value. For example, I own a share in a company. Unlike the piece of land that I can work and develop, I can't cultivate the share. It only has value in exchange. We need to think of property in this dual aspect and be careful not to confuse the two. Property with a use value and an exchange value is going to be more suitable to cultivating a broader range of habits and virtues necessary for a free society than abstract property. This is not to condemn abstract property, but to confuse the two or equate them is to make a serious mistake.

Real property is not simply agricultural land but includes home ownership, the ownership of small business, and the ownership of the tools of a trade. Economist Joseph Schumpeter recognized the use value of real, tangible property and was concerned about the way abstract property was replacing real property:

What is the connection between private property and a free society?

The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property. It loosens the grip that was once so strong—the grip in the sense of the legal right and the actual ability to do as one pleases with one's own; the grip also in the sense that the holder of the title loses the will to fight, economically, physically, politically, for "his" factory and his control over it, to die if necessary on its steps. And this evaporation, what we may term the material substance of property—its visible and touchable reality—affects not only the attitude of the holders but also that of the workmen and of the public in general. Dematerialized, de-functionalized and absentee ownership does not impress and call forth moral allegiance as the vital form of property did. Eventually there will be nobody left who really cares for it—nobody within and nobody without the precincts of the big concerns.

This vital form of real property calls forth allegiances in a way nothing else does. The diminishment of the ownership of real property and its concentration is what both Schumpeter and

Hilaire Belloc meant when they argued that capitalism was unstable. Belloc defined capitalism as the "agglomeration of capital into a few hands." He thought capitalism would not last, and that the only two stable alternatives were socialism or the 'proprietary state,' a state comprised of a critical mass of property owners.

In 1831, Alexis de Tocqueville was impressed with the broad property ownership in America. He remarked that "most of those who inhabit democratic countries are property owners. They not only have property, they live in the condition in which men attach the most value to their property. In America, there are no proletarians. What strikes me most, is not the extraordinary greatness of a few industrial enterprises. It is the enumerable amount of small enterprises." By the middle of twentieth century Röpke saw matters differently: "It was Jefferson's nightmare that the peasants and workers who comprised the population of the United States of America, at the end of the eighteenth century would become changed one day into a propertyless and nomadic proletariat on the one hand and a capitalistic plutocracy on the other. This nightmare has come true within three generations." Röpke thought that this propertied state that was championed by Jefferson and celebrated by Tocqueville had been lost.

This is a sobering thought that gives rise to a number of sobering questions: What is the connection between private property and a free society? Is a certain kind of property more beneficial to a free society? Does the distribution of that property matter? Which virtues are necessary for a healthy market economy and how do we cultivate them? Is religion, and religious belief, necessary for the formation and propagation of those virtues? These questions begin with economic concerns but quickly move beyond supply and demand. Economists, as well as citizens, cannot afford to ignore them.

About the Author - "Mark T. Mitchell is the chair of the Government Department and teaches courses in political theory. He is the author of *The Politics of Gratitude: Scale, Place, and Community in a Global Age* and *Michael Polanyi: The Art of Knowing*, and he is co-editor of *The Humane Vision of Wendell Berry*. In 2008-2009, he was a fellow at the James Madison Program in American Ideals and Institutions at Princeton University."

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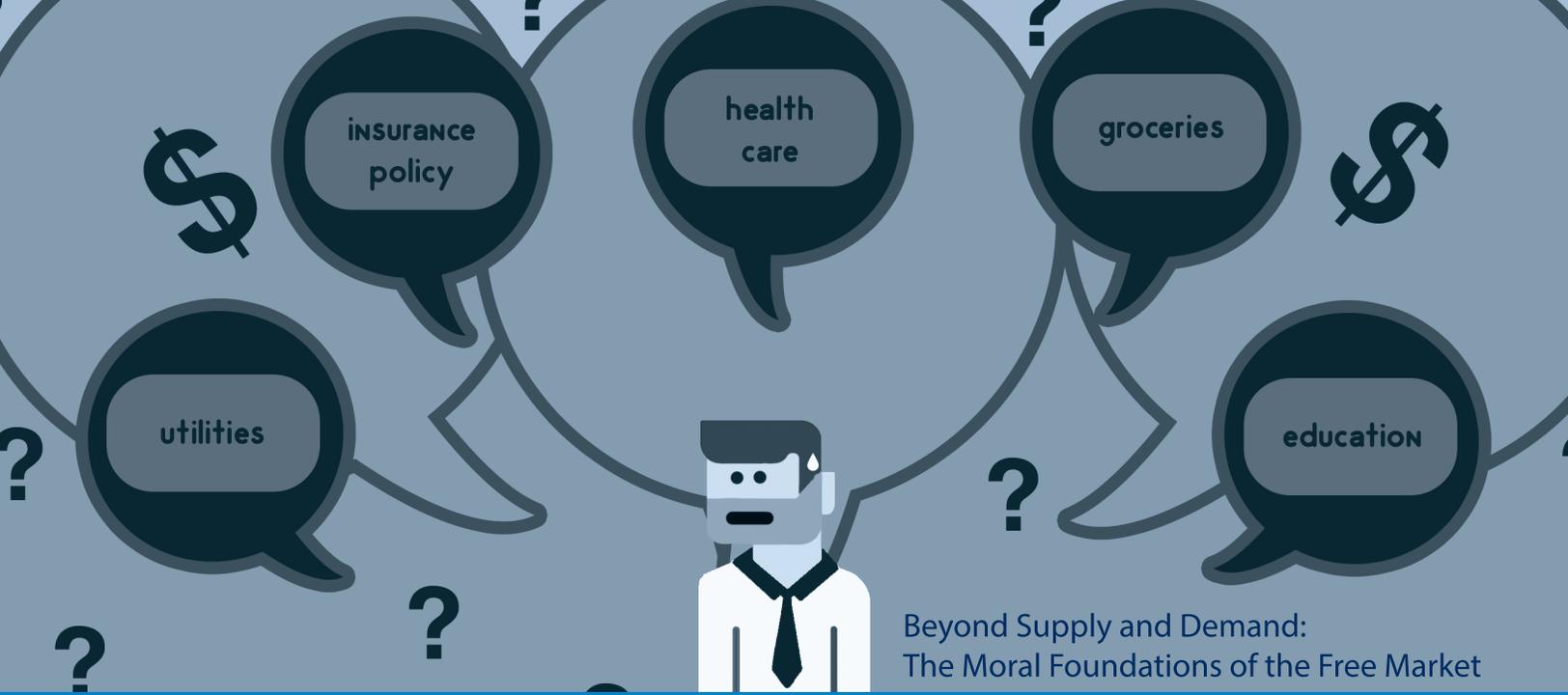
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