

## Morals and Markets

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The morality of markets elicits strong opinions. Some say that markets are inherently immoral, while others insist that they are a major force for good. The former group calls for strict regulation, while the latter prefers as little regulation as possible.

Both viewpoints miss a key fact. Markets are not a free-standing mechanism that we may or may not decide to regulate. They are an integral part of society. They are already governed by our social norms, without which commerce as we know it could not exist.

Some thought experiments can help us understand this. Suppose that firms were inclined to cut costs by consistently manufacturing products full of hidden defects. A new car or power tool breaks down within days, perhaps causing injuries. Consumer markets would be in chaos. The government cannot fix this, because if all manufacturers behaved this way, government inspectors would be overwhelmed. Competition cannot fix it either, because a manufacturer could outperform all the others while still selling shoddy products. The quality level at equilibrium depends on the prior inclinations of producers, or what economists call the supply curve.

Or suppose that companies competed by sabotaging other firms. Market dominance would depend on the avarice of the company rather than the quality of the product. The police cannot prevent this if everyone is doing it and finds it acceptable. Worse, the police may find it equally acceptable. Or to take an example that is not hypothetical, at least historically: suppose agricultural firms offered a competitive price in the market by importing slaves.

If these things don't happen, it is because most people believe they are wrong. We simply don't want to sell defective cars or sabotage the competitor. Laws can play a role in regulating behavior, but the law tends to follow public morality. Slavery was outlawed after widespread moral aversion to the practice developed.

So it is not a question of whether we are going to regulate markets, because they are already profoundly shaped by our cultural norms. They could not exist otherwise. It is a question of what our norms are going to be.

There is reason for optimism. Because things could be much worse, they can also be better—for the same reason. The equilibrium point will improve if the supply curve rises.

A business can contribute to this process by operating at the leading edge of cultural evolution. Many employees, including many of the most talented, are eager to make a positive contribution to the world. A company can attract them with a genuine opportunity to do so, rather than with the highest salary offer or empty public relations advertising. Many consumers want to be environmentally responsible, even at some cost to themselves, and companies can offer them environmentally sustainable products and energy options. Well-crafted laws can sometimes make it easier to compete at the progressive edge, and companies can support them when appropriate.

There is a perennial concern about a company's fiduciary duty to maximize profit for investors. However, these investors are human beings with ethical obligations like the rest of us. We have no duty to boost profits by engaging in activity that would be as unethical for them as for us if they ran the company themselves.

Markets and trade are probably as old as humanity, and they have always been dependent on and governed by larger cultural practices. If there is genius in markets, it is actually in the society that enables them. Enlightened business can help our societies strive for genius.