

RECKONING

with

MARKETS

Moral Reflection  
in Economics

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JAMES HALTEMAN & EDD NOELL

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Moral Reflection in Economics

James Halteman



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## RECKONING WITH MARKETS

*To my wife, Jane, whose work as a spiritual director helps  
balance the life of the mind with the life lived. The need  
for this balance is an underlying theme in this book.*

*J. H.*

*To my wife Nancy, servant of the Redeemer. Your loving  
encouragement and godly wisdom in innumerable ways  
continue to enliven my research and teaching.*

*E. N.*

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## PREFACE: THE INGREDIENTS OF A SOCIAL ORDER

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This project emerged out of an ongoing dialogue between two economists about the continuing relevance of moral thinking in their discipline. The present volume is intended to encourage both budding and mature economists to engage in a similar discussion. Hopefully such discussions will be enhanced by the exploration of the history of moral reflection in economics presented in the chapters that follow. How we produced the end product involves the story of the pursuit of the elements of social cohesion, a narrative that Jim Halteman most appropriately tells because of his initial interest in probing the distinctive historical elements of 'social glue.'

I was always fascinated by the challenges of maintaining a viable social order. Majoring in history as an undergraduate took me across the span of time and the rise and fall of great civilizations. The flow of intellectual history was a parallel fascination because in each time and place there seemed to be thinkers who tried to dissect the social glue that needed to be nurtured if a given city state, dynasty, or nation was to flourish. Each era had its social and economic institutions coupled with power structures that brought together the various social classes to form a workable existence. And then there

were beliefs, values, and religions, acting as oil in the gears of the system. Cultures that could pull together these forces into a complementary package lasted longer than those that tried to survive with contradictory forces at work. For example, a society with centrally controlled political and economic systems will not survive when freedom and social mobility permeate the population or when the tactics used to maintain power become morally offensive.

The moral and ethical components of the social glue may be the most difficult to explore because they are not easily documented and they are often relegated to the level of personal and private contemplation. Organized religion may be the most visible place to study these value-laden forces, but the rhetoric of institutionalized religion does not always match what is really going on in the marketplace or the neighborhood.

My experience nearly two decades ago in Russia and the Czech Republic made this point clear. After Mikhail Gorbachev attempted to open up the Soviet Union to increased Western engagement, I was involved with a group of economists and business faculty who participated in a project to create a curriculum for master of business administration (MBA) programs at some universities in Russia. The minister of education in Russia had committed some resources to add to the funding we had, and the explicit request was to include values into the curriculum along with the market-oriented content. Collecting and translating sources, introducing teachers and students to the material, and adapting it all to reflect Russian culture was a task that involved various visits and stretched out over five years. My group was a wonderful assemblage of Russian academics who cherished the materials we developed and were highly motivated to plough ahead with a values-oriented market-based curriculum. Now, approximately fifteen years after our work concluded, it appears to have failed in its objective.



What went wrong? No doubt there were mistakes made in our strategy and funding. The Ministry of Education was unable to come up with the publishing money. There was resistance to Gorbechev's reform efforts, and on the first day of our first visit in 1991 there was a political coup that attempted to upset Gorbechev's entire program. But a few days later, as I exited the subway to help celebrate the failed coup, I was overwhelmed by the excitement of the crowds that were energized by the possibility of a new future.

As our work progressed, my pessimism began to surface as I realized that there was nothing in markets theory that caused people to trust one another. At one point I asked a Russian professor in the business ethics group whether it would be reflective of Russian culture for a citizen to wake up a sleeping self-service gas station attendant to pay for gas if no one was watching and there was no chance of getting caught for leaving without paying. After a moment of thought, the answer was no. My scenario would be seen as an economic opportunity not a moral issue. This set in motion my search for sources of trust in the culture, and for the most part, I found one main place where trust existed in the early years of independence in the Czech Republic. In a small bolt factory, I watched bolts being made for the European Union by an innovative process developed by the owner and his employees. The owner claimed he could sell much more than he could produce, so I asked him why he did not expand his business. The following conversation gave me some answers to my search for moral glue in the culture:

(OWNER) "I don't have enough cash to build or expand factory facilities."

(ME) "Why not get bank loans and build the plant?"

(OWNER) "I don't trust the banks. They will likely cheat me in the loan process."

(ME) "But couldn't you go to the authorities or police and get justice if the banks did that?"

(OWNER) "I don't trust the police either. They are looking out for themselves, not me."

(ME) "Well, who do you trust?"

(OWNER) "I only trust my family, and I have one grandson to take over the business. So getting bigger is not a good plan."

It was becoming clear to me that our efforts to promote markets in the former Soviet Union were going to be a long process with an uncertain outcome no matter how eager many were for change in the system. Without some embedded sense of trust and fair play among the market participants, the cost of transactions was going to be very high. As I left Russia in 1995, one thought kept recurring as I pondered the efforts of the previous five years. How is moral life cultivated in a society, and what makes it grow into something that keeps transaction costs low enough to make market exchanges work?

This study follows the role of philosophers, sages, and religious teachers in the ancient world and moves on to the ruminations on economic justice and influence on everyday economic decisions of the medieval churchmen. With the Reformation comes a new approach to moral reflection and, accompanied by the individualism and scientism of the Enlightenment, moral life is relegated to a more personal and naturalistic, if not emotive, enterprise. Following Adam Smith, telos-based moral reflection and the pursuit of virtue rapidly diminish in economic thought. The market properly constructed is viewed as possessing the necessary ingredients to make moral action wise and profitable. Moral questions can be left to the policy makers who need to make the political and social tradeoffs required for maintaining social solidarity. A common view is that, as recipients of Western religious moral

traditions, Western capitalist societies have sufficient moral resources to support market capitalism.

However recent challenges to this view have caused many to wonder if the moral capital of the West is not being rapidly depleted. First, economies are now intertwined worldwide, yet it is hard to foster common values in regard to human rights, environmental responsibility, the rules of exchange, or personal ethics. Second, the complexity of many markets has created an uneven playing field among buyers and sellers increasing the need for individual and corporate integrity if trust is to be maintained. Financial markets and various components of the health care industry are examples of how product complexity makes it difficult for buyers and regulators to play their role in fostering efficient outcomes. The way we think often precedes what we do, and so one objective of this book is to survey the landscape of moral reflection observing how we think about moral life. For generations, economic thinking has carefully maintained a value-free methodology that was designed to predict behavior more than understand it. However, in recent years there has been increased scrutiny of the impact of social norms, customs and habits, psychological predispositions, genetic and neurobiological determinants, and institutional change. This has opened the door to interdisciplinary dialogue and a recognition that moral reflection cannot be ignored as economists seek to both predict behavior and understand the motivation for action.

The story that follows is circuitous and interdisciplinary. It cannot escape philosophical musings, methodological controversies, and historical considerations. Context is all-important, and most interpretations are open to dialogue. As the project progressed, it benefitted from conversations with Professor Edd Noell, a fellow traveler in the history of economic thought literature. His insightful reviews of chapter drafts and his suggestions for additions made it clear that the book would be better if it became a joint project.

Professor Noell's expertise in biblical literature, the medieval period, and Adam Smith and his interest in the heterodox contributions to moral reflection added significantly to the flow of ideas that is important background in understanding how moral and economic life are intertwined. Edd's path on the journey of moral reflection in economic thought has benefited from the light shed by his graduate adviser William Campbell. Bill's nuanced critique of the fact-value distinction and insightful perspective on the moral philosophy of the Scholastics and Adam Smith offer a cogent model of the benefits of rightly understanding economics from the standpoint of the liberal arts.

It is our hope that the following pages will inspire readers to intentionally explore the ways that moral questions impact economic activity and the way they think about how an economy is organized. We have aimed particularly to engage undergraduate economics students in the moral dialogue by supplementing their reading in the major primary sources of economic thought with eleven vignettes designed to bring a contemporary application to the historical content of the chapters.

The wall between positive and normative economic thinking is structurally damaged, and this book hopes to consider what repair or changes might be helpful. The hope is that this effort complements and adds value to, rather than competing with, what has been standard practice in economic thinking. As will become clear in chapter 7, the road to economic understanding is never a dead-end street.

## RECKONING WITH MARKETS

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## Setting the Stage

### *The Plenary Session*

If all of history could be put into one lifetime or one lifetime could stretch across all of history, we could learn so much from the dialogue that might take place among many of the top thinkers of the past. Imagine a conference that would include Aristotle, Saint Paul, Thomas Aquinas, Adam Smith, John Stuart Mill, Jeremy Bentham, Alfred Marshall, Karl Marx, Milton Friedman, Amartya Sen, and many others. Whether the conference is held in Athens, Glasgow, New York, or elsewhere, the crowds would gather to see what kind of discussion would result from the speeches and breakout sessions. Imagine again that the topic for discussion is the role of moral reflection in economic life. What values, beliefs, predispositions, and sentiments are relevant to the allocation of resources in a social order?

Let us do some of the imagining for you; but before we begin, a few caveats are in order. A discussion of moral reflection in economic thinking is different from proposing a specific moral agenda that should be followed. Most of this book is a historical survey of how moral reflection impacted resource allocation over the centuries. Later chapters show how such reflection became suspect in the Enlightenment era of scientific discovery. The latter part of the book considers more recent efforts to expand economic thinking into categories beyond rational choice modeling. Values and beliefs

impact preferences, and choices are embedded in data that are often considered value free and are woven into most economic concepts, such as cost and price, and therefore efficiency. The topic of moral reflection in economics raises concerns and fears for many. This is not surprising because differences over moral issues have created enormous conflict and even violence throughout history. Religious fundamentalism, on the one hand, and a passion for autonomy and freedom from restraint, on the other hand, have often ironically led to intolerance and abuse. When people's beliefs become coercive, they frequently are counterproductive. However, in recent times, the moral components embedded in human consciousness have been the subject of increased scrutiny. Interdisciplinary contributions from all the social sciences and humanities are now on the table for discussion and research. Genetics and neurobiology are now integrated into the social sciences and former claims of value-free analysis are being challenged. This book concludes with a discussion of what these developments may mean for economics. It may provide more questions than answers, but hopefully it can encourage more open discussion of how values and beliefs impact economic behavior. So now let our conference on moral reflection in economics begin.

FACILITATOR: Greetings gentlemen, would you please take your places around the table? The name cards are placed in order of birthdate, and of the various forms of address that have been employed over the centuries, we have chosen to use Mr. when we speak to one another. Our purpose here tonight is to lay out the ground rules for later conversation in the breakout sessions that will follow and to put forward the key issues that need to be addressed at a conference such as this. First, you were invited because you all have made contributions to moral thinking on economic questions.



Some of you have ventured into philosophical and methodological areas, while others have cautioned against making economics a moral science. While we may all see the moral life as an important deterrent to the selfish human passions, we differ on the nature and source of moral reflection. Some understand the source of moral values to lie within the person. Individuals conditioned by social and psychological systems can develop norms and rules that enhance the well-being of the person and the group. Others see moral values as derived from outside the individual, as part of a philosophical or religious belief that presumes a *telos* or ultimate purpose of life. This purpose informs us about the meaning of good and proper conduct of behavior.

Thus we have a common purpose but different approaches, and our task here today is to share our views briefly, not as in a debate but so that those after us in the twenty-first century can see moral reflection as an essential ingredient of economic analysis and policy formation. From this plenary session we will then have breakout sessions in which moral reflection will be explored more deeply through your writings and the work of your contemporaries. The proceedings of the breakout sessions will be summarized and recorded as chapters in a book. And so the floor is open. You may refer to me as the facilitator. Speak into the microphones so that your exact words can be transcribed.

MR. ARISTOTLE, would you like to begin our discussion?

MR. ARISTOTLE: Indeed it would be an honor to do so. "For man, when perfected, is the best of animals, but, when separated from law and justice, he is the worst of all; since armed injustice is the more dangerous, and he is equipped at birth with the arms of intelligence and with moral qualities which he may use for the worst ends. Wherefore, if he have not