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MORALITY AND THE MARKET

You hear it all the time from conservatives: “Leave it to the market.” Health care: Leave it to the market. Social Security: Leave it to the market. The climate crisis: Leave it to the market. Campaign finance: Leave it to the market. Minimum wage: Leave it to the market.

The market even plays a major role in our foreign policy. The Iraq war was partly about bringing markets to Iraqis. Much of our government’s efforts in international relations are about fostering “free markets” through “free-trade policies.” Privatization and deregulation convey the same message: Leave it to the market. America is a market economy. Progressives function just fine in America’s markets, and a great many do very well in the marketplace and celebrate it. Yet progressives—even the wealthy ones—tend to disagree with virtually all of the leave-it-to-the-market arguments.

What’s going on? Do conservatives and liberals mean different things by “the market,” and, if so, what are they? And why are conservatives seen as the only—or at least the primary—champions of the market?

Interestingly, we’ve discovered that the family models discussed in the last chapter structure our understanding not only of government and national politics but of a host of other social institutions—global politics, schools, the church, and sports teams, for example. The market is among them.

There is a widely hailed conservative version of the market and a largely implicit, intuitively understood—but rarely articulated—progressive version. It is crucial to understand the difference.

Markets are institutions for the exchange of “goods and services,” which can be almost anything, including money or stocks. Other products include convenience, identity (intimately connected with branding), and risk insurance. Even one’s labor is conceptualized as a product that one—or one’s union—sells in a labor market.

The classical assumption behind markets is that everyone is trying to maximize profit, with sellers trying to maximize prices and buyers trying to minimize costs. This leads to the idea of the market as “determining value”—what the buyer is willing to pay and the seller is willing to accept.

The central idea, promulgated by Adam Smith, is that everyone is, or should be, trying to maximize his or her profit. By what Smith termed the “invisible hand,” that is, as a matter of nature, such a market maximizes profit for the totality of buyers and sellers and so helps everyone—including the nation.¹

This is the idealization. It is seen as moral because it is seen as natural for everyone to maximize his or her own profit—the system Smith described is an accurate account of how the world, or at least the economic world, works.

The idealization makes many assumptions that economists know are not really true: There is near-perfect competition, there is perfect knowledge by both buyers and sellers, there is equal accessibility, there is no collusion by sellers to inflate prices, both buyer and seller are equally powerful, and both buyers and sellers act rationally.

These assumptions are false, and the fact that they are false raises serious questions about the natural and moral aspects of markets of many kinds. Nonetheless, it is widely assumed—by both liberals and conservatives—that the idealization is true.

These are factual assumptions about how the economic world works. But when the question turns to values—how should the market function?—the answers informed by the strict and nurturant family models differ markedly. And problems with the idealization become more noticeable.

CONSERVATIVE IDOLATRY

In the strict father model, the “free market” plays a significant, implicit role. The market is a competitive system where the disciplined are rewarded through profit, and the undisciplined (and hence immoral) are punished through poverty. The market is an instrument of morality. Because the “free market” is seen as being natural, moral, and fair, the following strict father logic applies: If you’re not prosperous, it means you’re not disciplined; if you’re not disciplined, you cannot be moral, and therefore you deserve your poverty.

The market is to fundamentalist economics what God is to fundamentalist religion—God rewards the disciplined people who follow His commandments and punishes sinners who are undisciplined or rebellious. As with fundamentalist religion, the conservative’s market is radically individualist. You and you alone are responsible for whether you go to heaven or hell and whether you succeed or fail in the market. Like God, the market rewards or punishes, depending on how disciplined you are.

There are a number of entailments that come along with this conservative view of the economy.

The profit motive is taken as ensuring maximum efficiency, so the market satisfies individual needs best. Government is seen as wasteful and inefficient, interfering with the idealized “free” market. It interferes in four ways:

- Regulation, which limits what individuals or corporations can do to make profits
- Taxes, which are seen as taking profits away
- Workers’ rights and unions, which lessen corporate and investor profits
- Tort lawsuits, which can take away corporate and investor profits

That is why the right wing is for deregulation, against taxation, against unions and workers’ rights, and for “tort reform.”

Also, in conservative economics (as with conservative religion), the Earth is to be used by human beings for their profit. Nature is there for the benefit of man. Things that aren't privatized and being used for production have no value. Therefore, as much as can be privatized should be turned over for development. There is no room for the idea of a commons—a common inheritance of all mankind in the natural world—that should be protected from being commoditized and used for individual profit.

PROGRESSIVE MORALITY

For progressives—who start with empathy for others and responsibility for both themselves and others—markets should serve to make people free: free from want, free from harm, free from fear, free to meet one's needs and fulfill one's dreams. In short, the job of markets is to serve the common good; allow everyone who works to earn a decent living; help achieve freedom from want, illness, harm, ignorance, bigotry, and fear; preserve the natural world; and serve democracy.

Progressives are focused on where markets depart from the idealization, where markets fail to meet expectations, and where government is necessary. With these goals that define market success, progressives are acutely aware of what they see as real or potential market “failures” or “excesses” that require a government role to allow markets to function and serve the common good.

All the things that radical conservatives see as harmful government interference in free markets, progressives see as absolutely necessary government support for the success of markets:

- Regulation protects the public from harmful products and fraud by unscrupulous or irresponsible businesses.
- Taxation brings together the common wealth to build a common infrastructure that we all need to fulfill our individual needs and dreams. Progressive taxation is fair: Those who benefit most from the common wealth should pay the most to sustain it.
- Unions and workers' rights help balance the unfair distribution of power in job negotiations and promote safe, healthy, and ethical workplaces.
- Tort lawsuits are the last possibility—the baseline of protection—for dissuading irresponsible companies from harming the public.

As mentioned above, the common good principle is central here: The common wealth has been used to build highways, develop the Internet and the satellite system, uphold the banking system, regulate the stock market, and support the court system, which guarantees contracts. No business functioning in the market could exist without massive use of the common wealth. It is crucial to the existence and flourishing of markets. And those who benefit from markets have a moral obligation to replenish the common wealth.

Progressives see markets as serving a moral purpose—a progressive moral purpose. And they recognize a truth that conservative ideology hides: Markets can't thrive and

serve the common good without the constructive role of government. This is what conservatives ignore when they speak of the “free market.”

THE FREE-MARKET MYTHOLOGY

The conservative idealization of the “free market” falls far short of reality. Indeed, expectations of living up to this ideal are quite harmful. Here’s what is in the conservative’s free-market frame:

Markets are free when government doesn’t regulate or interfere in the market. Through the “invisible hand,” markets maximize efficiency and wealth for all. Government “intervention” in the market stifles freedom, creates inefficiency and waste, and inhibits profitability for all. Free markets are open and accessible to all. Seeking profit in the market is natural, moral, and fair. Because markets maximize profit overall, they contribute to freedom. Ensuring free markets is thus a moral cause.

Nice as this may sound, the “free market” is a myth, and conservatives well know it! They understand that government regulation of and participation in the market can be beneficial. For instance, the staunchest free-market proponents in Congress and the administration didn’t bat an eye after 9/11 when they bailed out the airlines to the tune of \$15 billion on the basis that the airline industry is a vital part of the nation.² They send a large percentage of the federal budget year after year to private defense companies, shifting public wealth to private owners. They spend tens of billions to support the oil industry.³ They maintain price supports for agribusiness to keep profits high and the price of food low.⁴ For generations, they have auctioned off or given public resources like the airwaves and land, water, and oil rights to corporations for development.

These are cases of the upward redistribution of wealth—transfers of wealth from ordinary taxpayers to wealthy owners, managers, and stockholders. These interventions in the market promote what conservatives believe is the vital national interest.

But when government intervenes on behalf of working people, consumers, or the environment, conservatives scream foul and invoke the “free-market” frame, because these interventions don’t mesh with their political philosophy. “Free market” is a slogan used to attack the essential rules that keep the market functioning for the common good. It’s time to end the “free-market” myths.

Myth 1: A Purely “Free Market” Is Ideal. Consider what a purely free market—that is, a market without government intervention—would look like. Drug companies could market drugs they haven’t fully tested, knowing they cannot be regulated or sued. A mining company’s only incentive to secure safety for its workers would be the fear that killing too many workers would decrease the labor supply and drive up labor costs or generate ill will. An oil company’s only incentive to strip gasoline of lead would be the potential PR problem from putting lead in our atmosphere. Indeed, the early days of the Industrial Revolution mirrored this world, and it was a very difficult time for workers. A

“free market” means business can strip the commons of its wealth, making the rest of us pay for its profits.

Myth 2: People Are Rational Actors. A central assumption behind the free market is that consumers are “rational” and always act to maximize their self-interest. We now know from cognitive science and psychology research that people do not really think that way. Frames, metaphors, prototypes, and other nonlogical cognitive mechanisms enter crucially into their decisions. Consumers don’t make decisions based on perfect cost-benefit analyses; they also base them on simplifying assumptions, an unequal weighting of risk and reward, different attitudes about “found” money and earned money, and other factors. This puts consumers at a disadvantage in the market when dealing with maximally efficient corporations.

Myth 3: There Is a Level Playing Field. Companies have two kinds of employees—assets (upper management and creative people) and resources (people who are interchangeable and available in the “labor market”). Profits rise when the cost of resources falls; the pressure to increase profits correspondingly tends to drive down wages. From a market perspective, a job seeker wants to sell his or her labor, and the company wants to buy that labor for as little as possible. Unemployment helps profitability by producing competition among job seekers, which tends to drive down “prices”—that is, wages. In such a situation, individuals seeking work have very little, if any, leverage to increase their wages. The power belongs to the employer. Unions help to balance that power by cornering the market on labor and thus driving up the price that can be charged for it. The minimum wage sets a floor on how low employers can go in setting prices for labor. In the ideal “free” market, which doesn’t exist, there is no such power differential. Conservatives who oppose unions and the minimum wage argue that in such a “free market,” wages should be set by the market, and anything else is unfair. In real markets, the playing field between employees and employers is anything but level.

Myth 4: A Company’s Balance Sheet Reflects True Costs. It is commonplace for businesses to externalize costs and have the government or the public pay for them. Many companies do not pay to dispose of their waste but instead just pollute the air or water, passing on to the public the costs of doing business. Many businesses extract resources—oil, minerals, timber—on government-owned land for a fraction of what they would pay on the open market. These are publicly owned resources, and the “true cost” is being borne by the public. Other businesses make the public work for them for free. When you make a “customer service” call and then have to wait interminably, your time is being used so that the company doesn’t have to hire more people to handle customer service calls. You are working for the company. The same is true when a company tells customers to look up information on its Web site. It is the customer’s time and effort being spent. These are ways to “externalize” true costs and make more profit. Progressives who want to ban the externalization of costs are ultimately working to make markets closer to ideal “free markets.”

Myth 5: Everything, Even Life, Has a Fair Monetary Value. How can a market assign adequate value to a human life? An endangered species? A healthy ecosystem? Aesthetics? In a purely free market, value is determined through supply and demand, with calculation done via cost-benefit analysis. Life insurance companies assign a dollar value to human life. Corporations use cost-benefit analysis to decide how safe to make a

car or a drug. HMOs use cost-benefit analysis to determine whether it is “worth it” to send a patient to a specialist, or to have an MRI taken. The “free-market” frame assumes that these are “fair costs” and that the process is always moral. The fact is that there is no such thing as a “fair price” for these things.

Myth 6: Markets Are Outside the Scope of Moral Judgments. The conservative view is that unconstrained free markets are inherently natural and fair—and inherently moral, in that they maximize profits for everyone. But, as we have seen, business decisions affect human health and life, the survival of species, and so on. These are moral factors, and we cannot afford to ignore them.

Myth 7: Everyone Can Pull Himself or Herself Up by the Bootstraps. While it is true that any individual may, in fact, be able to pull himself or herself up by the bootstraps, it is not true that all people can do so. Our economy is structured by a cheap labor trap—it depends on the people who flip burgers, wait tables, garden, clean up slaughterhouses, and pick fruits and vegetables. A lot of these workers cannot pull themselves up, because the jobs aren’t there for everyone; neither is the start-up capital to employ all of them. And if they did manage to pull themselves up, who would do that work?

GOVERNMENT VS. MARKET

The “free-market frame” is not an innocent description. It has major moral implications: Privatization and deregulation are seen as virtues that lead to “less government.” That is a fallacy. They lead to less responsible government.

Let’s look at a new idea: the conservation of governance. In general, governance is about making decisions. In some spheres, governance is best solved through personal autonomy, allowing individuals to make choices to determine the course of their own lives—where they want to live, what they will read, what clothes they will wear, what food to eat—so long as these choices do not impinge on the ability of others to make those same choices. In other spheres, governance is best left to the market, to determine what prices we pay for typical consumer goods. Communist and socialist societies have shown that planned economies do not work very well. In the public sphere, decisions should be made through democratic institutions—who our elected leaders will be, where and how the government will spend its money, what our environment will look like, and what are acceptable standards for those participating in the market.

But a dangerous shift in decision-making power is taking place. This is being driven by the conservative emphasis on privatization and deregulation. HMOs and drug companies, for instance, are deciding what type of medical care people will have and how much it will cost. (The recent prescription drug bill prevents Medicare from even negotiating volume discounts with drug companies.) Car companies are deciding how much CO₂ we can put in our atmosphere and how fuel-efficient our cars will be. The energy industry determines what type of energy we have access to, its impact on the environment, and how much it will cost. Private testing companies determine what kids should learn and how they should learn it.

These are moral decisions that affect the common good. As such, they should be publicly discussed, and the decision makers should be known and accountable to the public. In short, they should be made by democratically elected government, not corporate government, so they are ideally made in the interest of the public (though government can be manipulated to benefit special interests). But when government functions are privatized and industries are deregulated, these decisions are made in boardrooms for the benefit of stockholder profits. Because corporations are legally bound to maximize profit for their stockholders, and since spending on public safety and other aspects of the public good takes away from profits, corporate governments have an incentive not to work for the common good.

Privatization and deregulation constitute the outsourcing of democratically elected government with a moral mission to corporations that have a profit-making mission. The effect is to turn democracy into corporatocracy.

PROFIT AND HUMAN DIGNITY

Unfortunately, the conservative view of the unregulated “free market” has captured the imagination of many Americans, because conservatives have effectively communicated this idea for some time. Terms like the “free market” or assumptions like “you can spend your money better than the government can” establish the debate on conservative terms, making it difficult, if not impossible, for progressives to put forward their ideals.

What alternative frame can we use? How do we center the debate on questions that are important to us and not to conservatives?

On issue after issue, the counterpoints to the conservative principle of the free market are the progressive principles of human dignity and the common good. We are interested in a market that serves human values, not humans who serve a market.

Take the issue of health care. Conservatives believe that people should get as much or as little health care as the market provides based on your wealth. For conservatives, health care is essentially a commodity, like cotton or coal. Progressives believe that there is some basic acceptable standard of health care that must be available to all, by virtue of being an American and a human being. This is what it means to take human dignity seriously. A person’s health should not be left to the vagaries of the marketplace, particularly given the great wealth of this nation. Progressives also believe that healthy citizens will mean a healthy nation as a whole. Disease, after all, is transmittable. Failure to cure some of us can lead to the spread of disease to a great many of us.

In the conservatives’ worldview, even the environment is subject to market demands. They believe that the market should determine how much clean air and clean water is worth and that this determination should be subject to a cost-benefit analysis. A clean environment is simply another commodity. That overrides any responsibility as a community to preserve it for our children. Progressives believe that there is an inalienable right to clean air and clean water and that every human being deserves it—again as a matter of human dignity and the common good.

When it comes to education, conservatives believe that the market should decide how much of an education you get. No free rides. They apply the issues of “competition” and “consumer choice” to schooling. Progressives believe that human dignity and the successful functioning of a democracy require that all Americans receive a decent education.

The same goes for welfare, for Social Security, for transportation, and so on. Again and again, the conservative free market says that there is no floor, that it’s inevitable that many people will be losers. This contrasts sharply with the progressive view that markets must respect human dignity and serve the common good while pursuing profit. Each person’s dreams depend on the common good.

MARKET FAILURES

Thirty years ago, the richest 1 percent owned less than a fifth of America’s wealth. Now, according to a recent report by the Federal Reserve Board, they own over a third.⁵ Is there anything wrong with that picture? Conservatives tend to say no—it is a natural consequence of the free market, which is fair. If you, or your ancestors, have accumulated \$1 billion or \$10 billion in the free market, that is fair.

But that assumes you have earned your money on your own, or that some of your ancestors have. But we know from the principle of the common wealth for the common good that no one makes it on his or her own in this country, and that the more you make, the more you have used the common wealth, and the more responsibility you have to pay to maintain the common wealth.

Another way to look at it is that not all of it is “your” money—money you earned all by yourself with no dependence on anyone. Great wealth can be accumulated only by using other people’s money—through infrastructure paid for by taxpayers and through transfers of wealth directly from taxpayers to you, through government subsidies, writing off business expenses, tax breaks, no-bid contracts, and so on. These are transfers of wealth from ordinary citizens to the wealthy, and should be discussed as such. The common wealth infrastructure is one of the glories of American capitalism. It is there to be used by all, but if you make great wealth, you have a responsibility to pay back an appropriate amount to maintain that common wealth infrastructure so others can use it, too. The estate tax is the easiest way to pay back. You don’t have to pay it till you’re dead. And your heirs, who didn’t earn it, still get half of that great wealth.

Some months ago Rockridge received a note from a thirty-year-old man in Hawaii, who grew up there and had always lived there. He can no longer afford to. So many wealthy people have bought second and third homes there that many ordinary working people can no longer afford to buy a home in that market, or in his case, even pay the rent on an apartment. In short, the wealthy are investing their money in scarce resources like second, third, and fourth homes in beautiful places. This tends to limit access to the nicer but scarce things in life to the ultrarich. When the tsunami wiped out beautiful fishing villages in South Asia, they were all too often replaced by resort hotels on the beach and mansions for the rich—and the traditional fishermen were left without their ancestral homes. The pre-Hurricane Katrina ordinary residents of the nicest parts

of the Louisiana coast may be in for this fate as well. Again, these are transfers of wealth to the wealthy. The issue is more than the money itself—the issue is access to the wonderful but scarce wonders of everyday life, starting with real estate.

We began with the false idealization of “free markets” by conservatives who believe that near-perfect competition exists, that buyers and sellers are equal players, that there is free choice, and so on.

But deviations are everywhere. Corporate consolidation—“mergers and acquisitions”—in industry after industry has greatly limited competition and pushed up prices and profits by transferring more wealth from ordinary people to the wealthy. Deregulation has given corporations a great knowledge advantage over consumers; corporations, not consumers, know which drugs are harmful, or which cars will break down, or when the paint will peel off. Large corporations have much more market access—say, to supermarket shelves—than small businesses. Collusion on pricing is widespread and has become sophisticated. You don’t have a free choice about buying lifesaving prescription drugs. Wal-Mart is far more powerful than the people it hires in its nonunion shop. And every marketer knows that consumers do not act rationally. The “free market” isn’t free.

Markets have moral functions, and they are constructed to meet moral values and principles. Conservatives have been defining markets to fit their moral worldview. Progressives are way behind. It’s time to speak out.