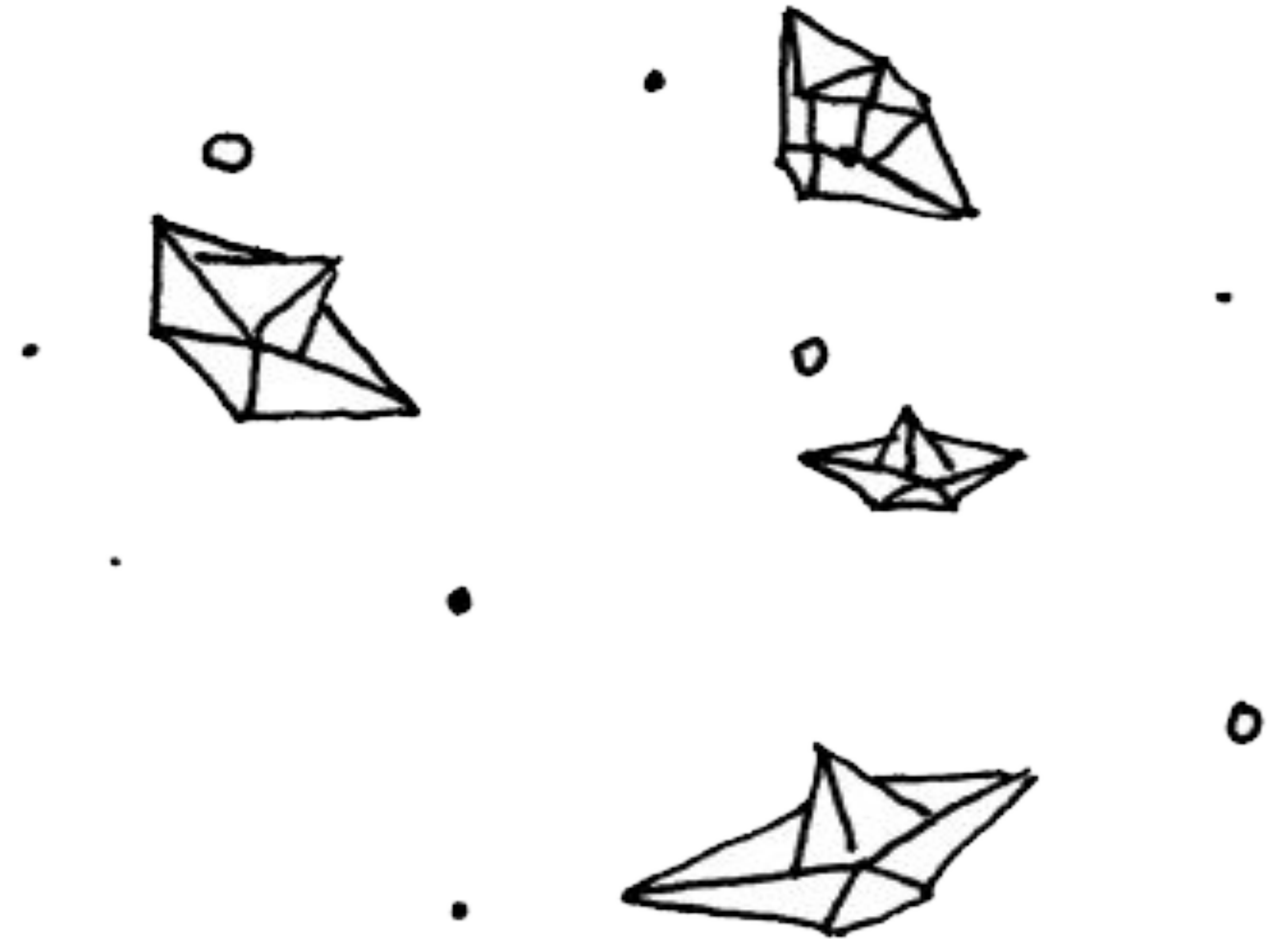


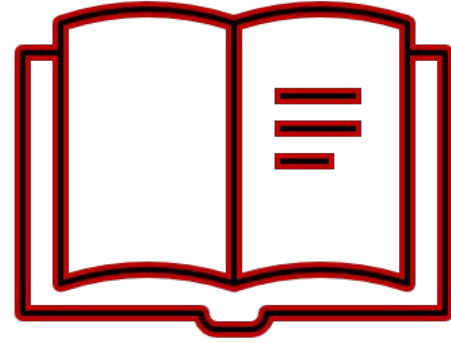
# Ethics

Classes 7 and 8: The Moral Limits to Markets

(Individual and community, economic growth and global responsibilities, moral limits to markets)



# What do markets do?



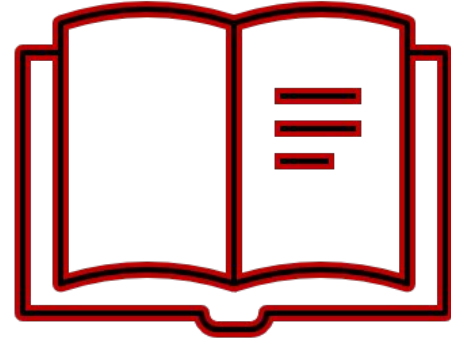
## Reading exercise

*Side note – foundation of market logic – maximizing individual freedom*

*Though the earth and all inferior creatures be common to all men, **yet every man has a “property” in his own “person.” This nobody has any right to but himself.** The “labour” of his body and the “work” of his hands, we may say, are properly his.*

*Whatsoever, then, he removes out of the state that Nature hath provided and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state Nature placed it in, it hath by this labour something annexed to it that excludes the common right of other men. **For this “labour” being the unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good left in common for others***

(John Locke, 1823: 116)



## Reading exercise

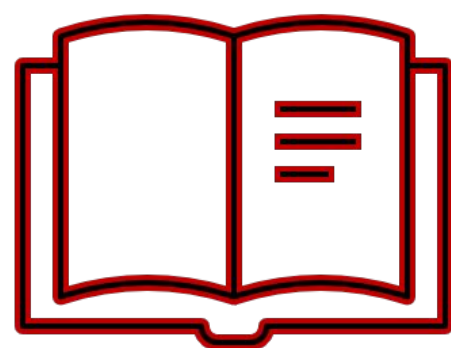
*Side note – foundation of market logic – maximizing individual freedom*

# Through markets we exercise our individual freedom

*“Markets call up our powers as individual decision makers who can veto as well as sign on to exchanges, and they give scope for the exercise of these powers.  
In this sense markets can be **instruments for promoting freedom**: they develop our capacities to choose.*

*Additionally markets can be **components of freedom**. As Amartya Sen has noted, the freedom to engage in transactions with others, to decide on where to work, what to produce, and what to consume, are important parts of a person’s overall freedom”*

(Debra Satz, 2010: 22)



## Reading exercise

*Side note – foundation of market logic – increased prosperity*

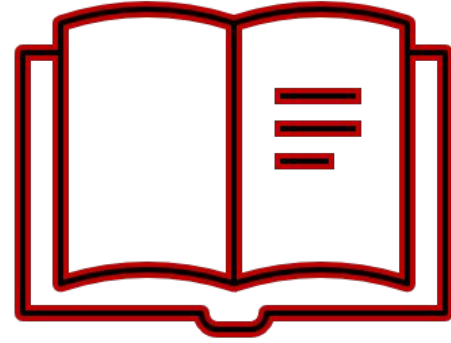
*As every individual, therefore, endeavours as much as he can, both to employ his capital in the support of domestic industry, and so to direct that industry that its produce maybe of the greatest value; **every individual necessarily labours to render the annual revenue of the society as great as he can.** He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it.*

*By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain; and he is in this, as in many other cases, **led by an invisible hand to promote an end which was no part of his intention (...).***

***By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.***

(Smith, 1776: 363-364)



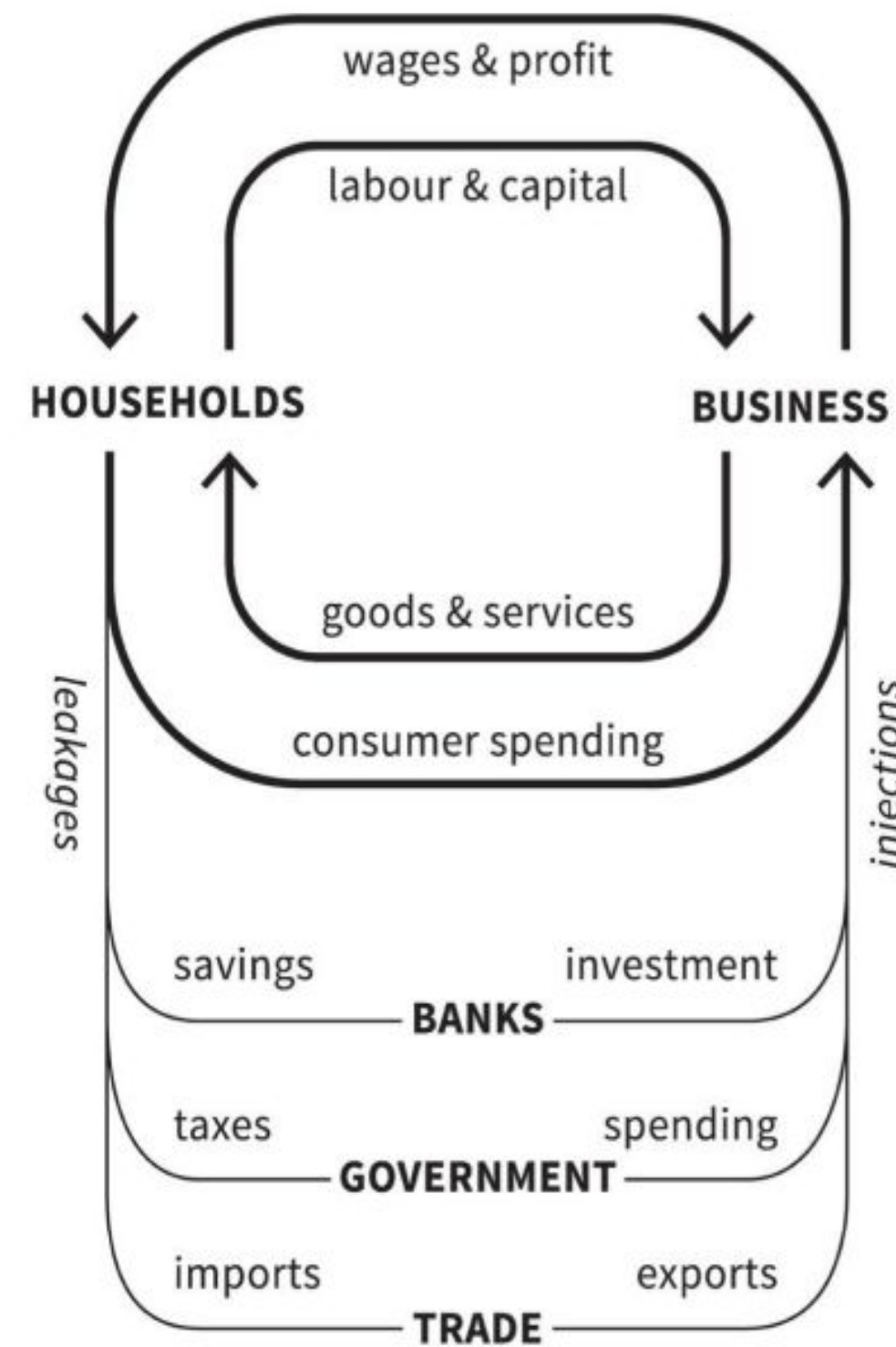


## Reading exercise

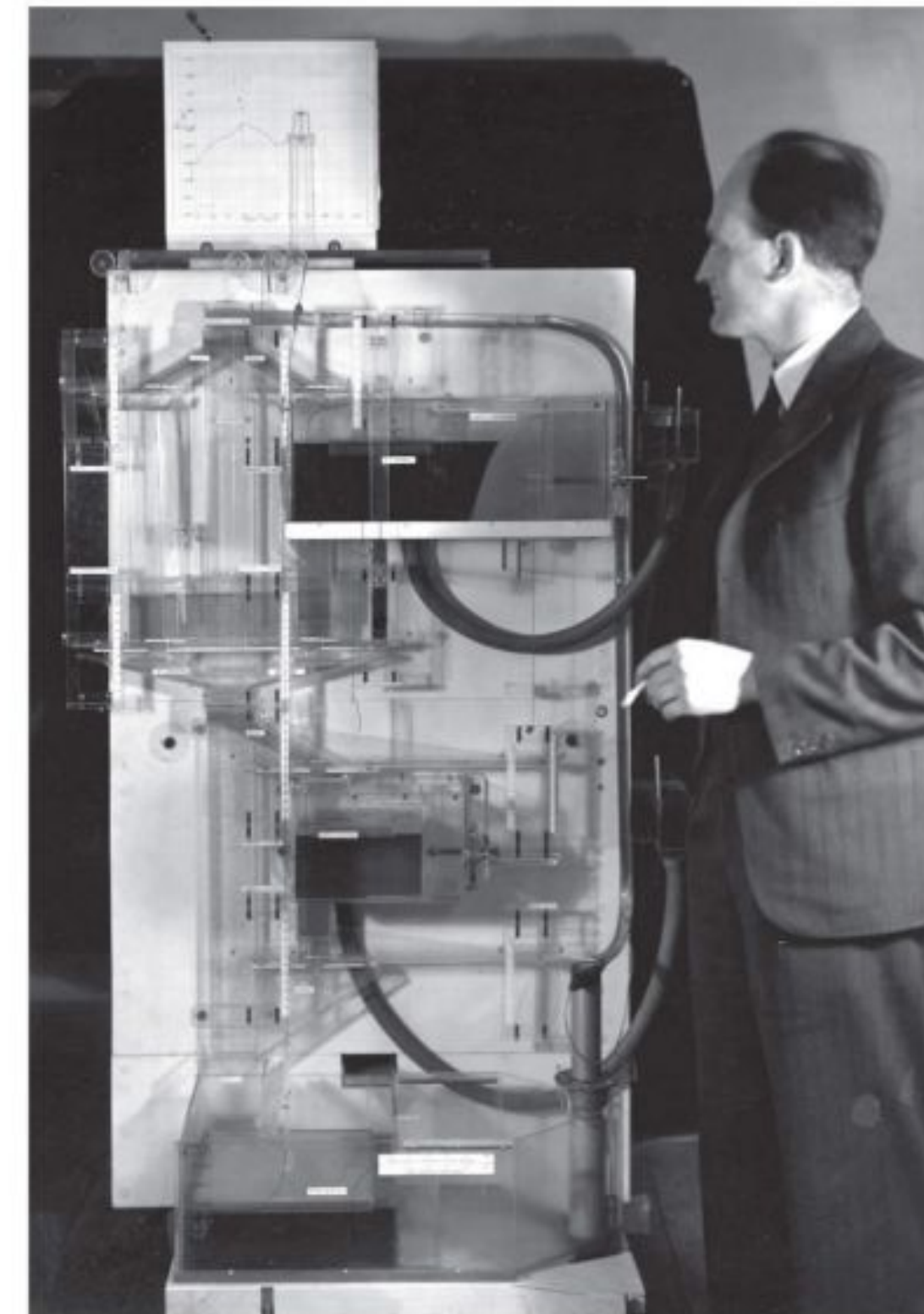
*Side note – the ethical origins of economics*

## Two origins of Economics

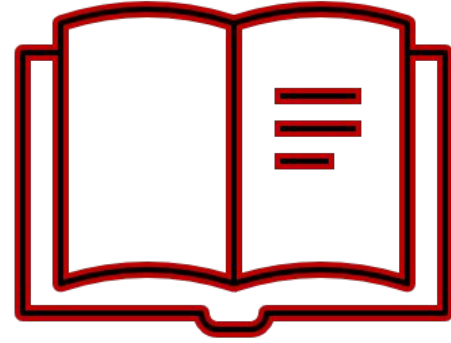
- Engineering/Logistics
- Ethics



*The Circular Flow diagram, which for 70 years was the defining depiction of the macroeconomy.*



*Bill Phillips and the MONIAC.*

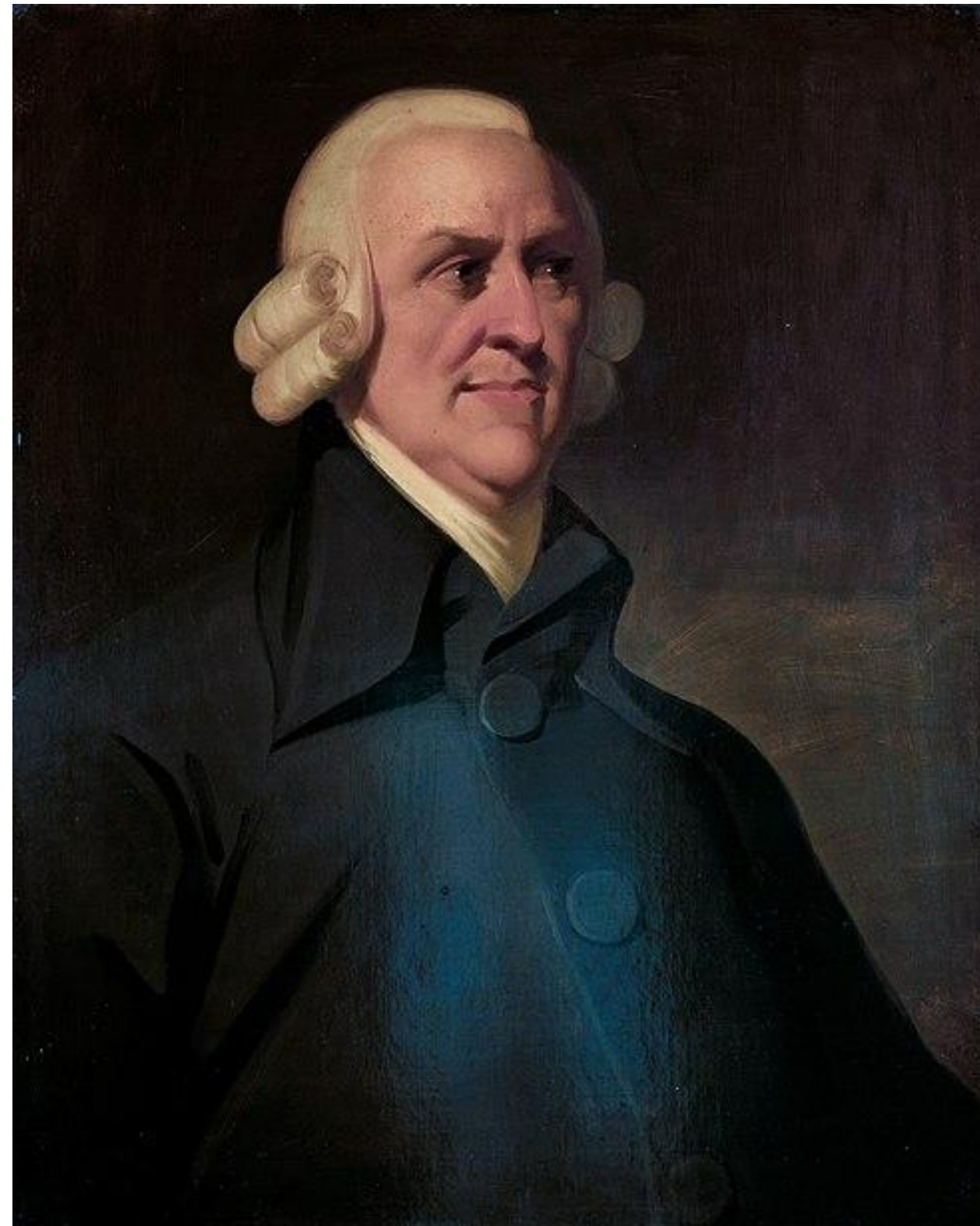


## Reading exercise

*Side note – the ethical origins of economics*

Adam Smith

1723 – 1790



Unknown author. The Muir Portrait. C. 1800. Oil on canvas, National Galleries Scotland. Edinburgh. Source: nationalgalleries.org

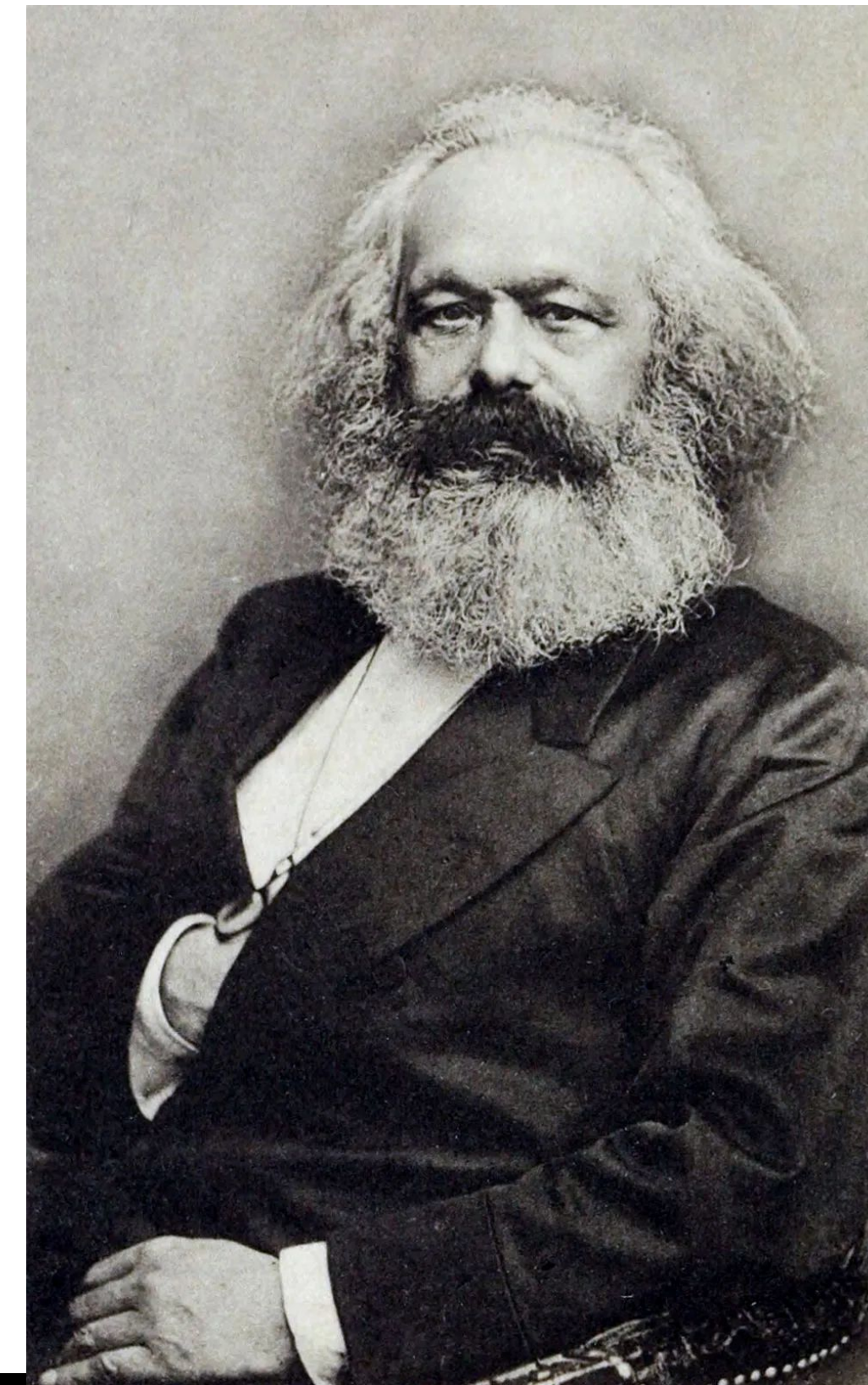
“How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.”

*Theory of Moral Sentiments* I.i.1.1

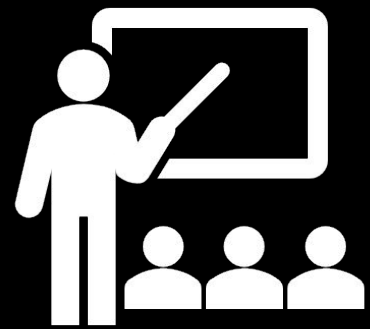


# Criticisms of markets abound

1. Instability and crisis – John Maynard Keynes
2. The (main) Marxist critique:
  - > Injustice and destruction of communal relationships







## RECAP

*What are markets?*

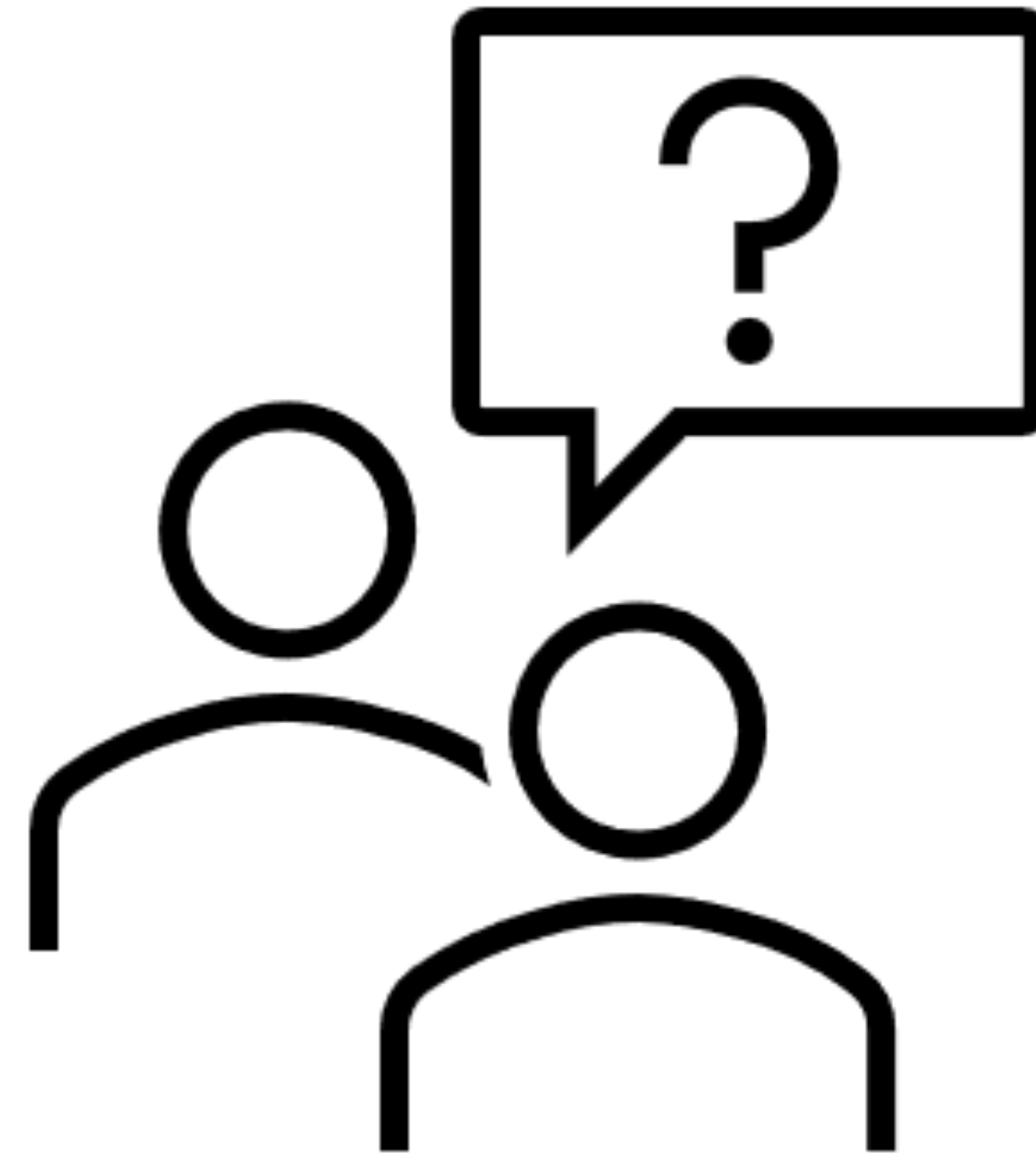
## Markets are...

A social construct that determines the production, distribution and consumption of goods and services. Where individuals engage in voluntary exchange. Do not require a centralized planning, since they are governed by the price system. Everyone exercises their subjective preferences.

Hence, they are said to promote **freedom** and **efficiency**.

**Can we agree that markets  
sometimes do not function?**

**YES or NO?**





## So-called Market Failures abound

- Price fixing
- Manipulation of supply
- Price discrimination
- Bribery
- Market concentration
- No account of externalities

*In realms such as health care and pollution and education, the prices and quantities yielded by private purchasing power give society either too little (education and research) or too much (pollution); or the attempt to maximize profits leads to perverse incentives (health care). In other realms, such as airline travel and electric power, unregulated market forces generate monopolies, frustrating the goal of efficient consumer choice. (Kutner, 1996)*

# The question today is: Are there any ethical limits to markets?

*Still other realms, such as banking and securities markets, require careful government regulation because the individual seldom knows enough to protect himself and speculative impulses can wreak broader economic damage. Moreover, many of the things we hold dear, such as the right to vote or the liberty of one's person, are not appropriate to market mechanisms at all. They are not properly commodities, but in a market society they are all too vulnerable to commodification. Today commercialism is relentlessly encroaching on realms where it doesn't belong.*  
(Kutner, 1996)



# Let's discuss some examples



## Pay for Better Academic Performance

One recent trend argues that parents and schools should pay students for good performance. In some cases, doing so per test: for example, granting a student 30 euros if he passes an exam, but 50 euros if he is in the top 10% or 20% of class.

So, for example, you all could be granted 20 euros for passing this course, but some of you would be granted 50 euros if you were part of the 10% highest achievement students in this course.

Example adapted from Michael Sandel, 2012: 59



## Outsourcing waste

'Dirty Industries' moving to Global South (less developed countries), hence, in effect, dumping most toxic waste in such countries at a cost (the countries' willingness to pay)

Example taken out of Debra Satz, 2010: 83

Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs [less developed countries]? I can think of three reasons:

1. The measurement of the costs of health-impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health-impairing pollution should be done in the country in the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.
2. The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. . . . Only the lamentable facts that so much pollution is generated by non-tradable industries (transport, electrical generation) and that the unit transport costs of solid waste are so high prevent world-welfare enhancing trade in air pollution and waste.
3. The demand for a clean environment for aesthetic and health reasons is likely to have very high income elasticity. . . . Clearly trade in goods that embody aesthetic pollution concerns could be welfare enhancing. . . .

The problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization.<sup>60</sup>



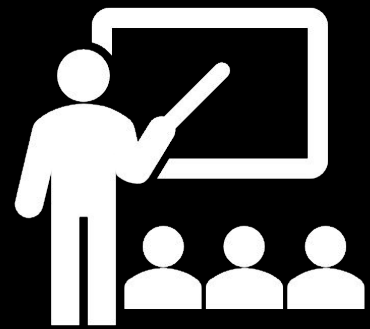
## **Selling reproductive rights**

Barbara Harris, the founder of a North Carolina NPO called Projection Prevention offered drug-addicted women 300 USD cash if they would undergo sterilization or long-term birth control.

Doing so, she expects, will lead to less babies being born to drug-addicted mothers – which reduces the instances of drug addicted babies, or instances of neglect and abuse.

Examples taken out of Michael Sandel, 2012: 34





## RECAP

*The three examples: outsourcing waste, academic performance, reproductive rights*

Concerns with **unfair** distribution

- Exchanges in duress: equal bargain?

Developing our **moral character**

- crowd out motivations for certain actions
- changing our norms on collective and individual behaviour

The meaning ascribed to a good

- some goods have intrinsic value
- some are gifts cannot be commodified

Added point: Concerns with **dignity**

- sense of dignity of persons and their self-respect



(Michael Sandel)

# Another ethical justification to limit markets

*Some markets are objectionable (noxious) even if they turned out to be efficient, and even if they arose from voluntary agreements, if they*

- *generate from weak agency,*
- *exploit the underlying vulnerabilities of the most vulnerable,*
- *or have extremely harmful consequences for individuals*
- *or their societies.*

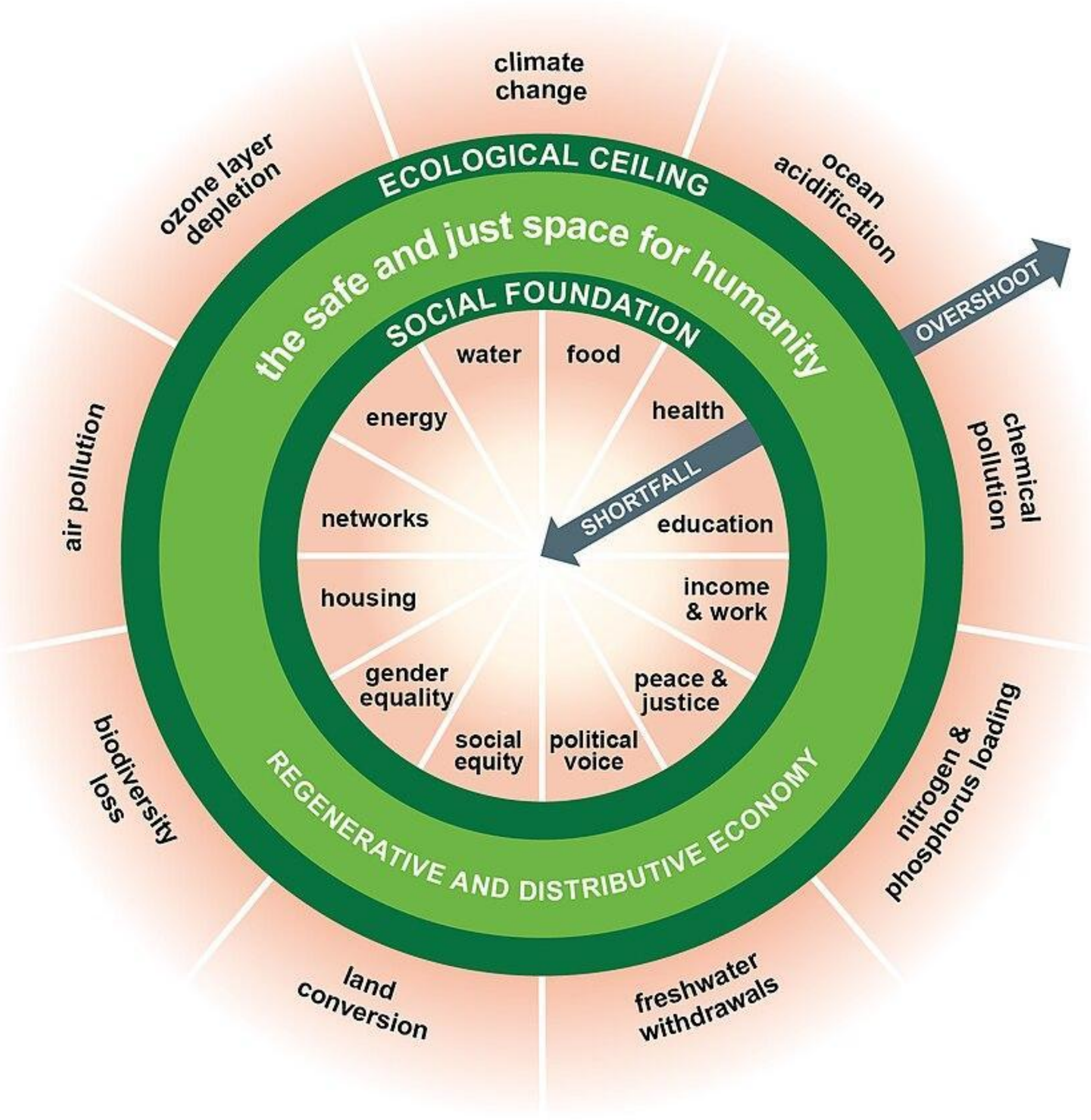
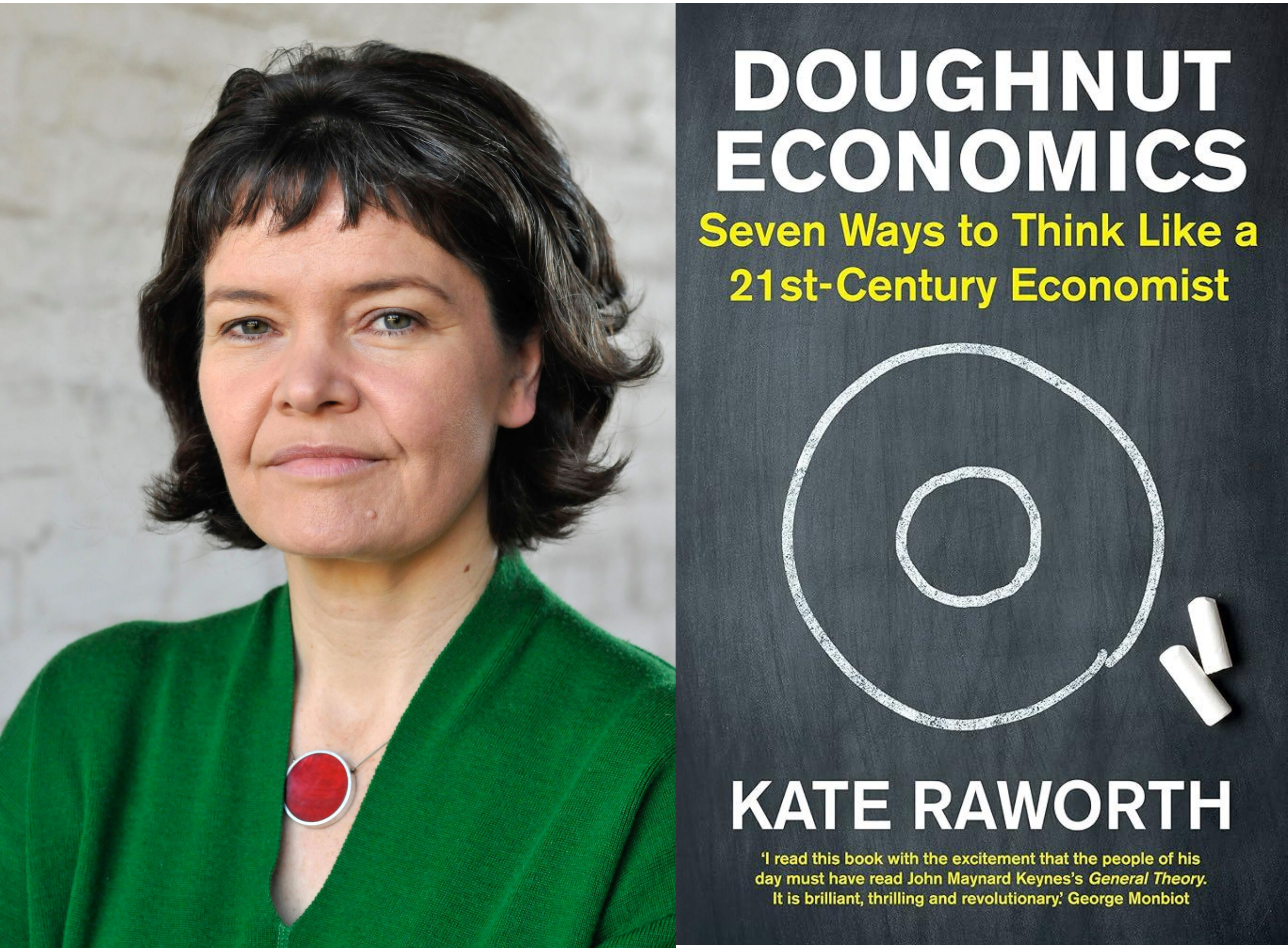
(Debra Satz, 2010: 35)



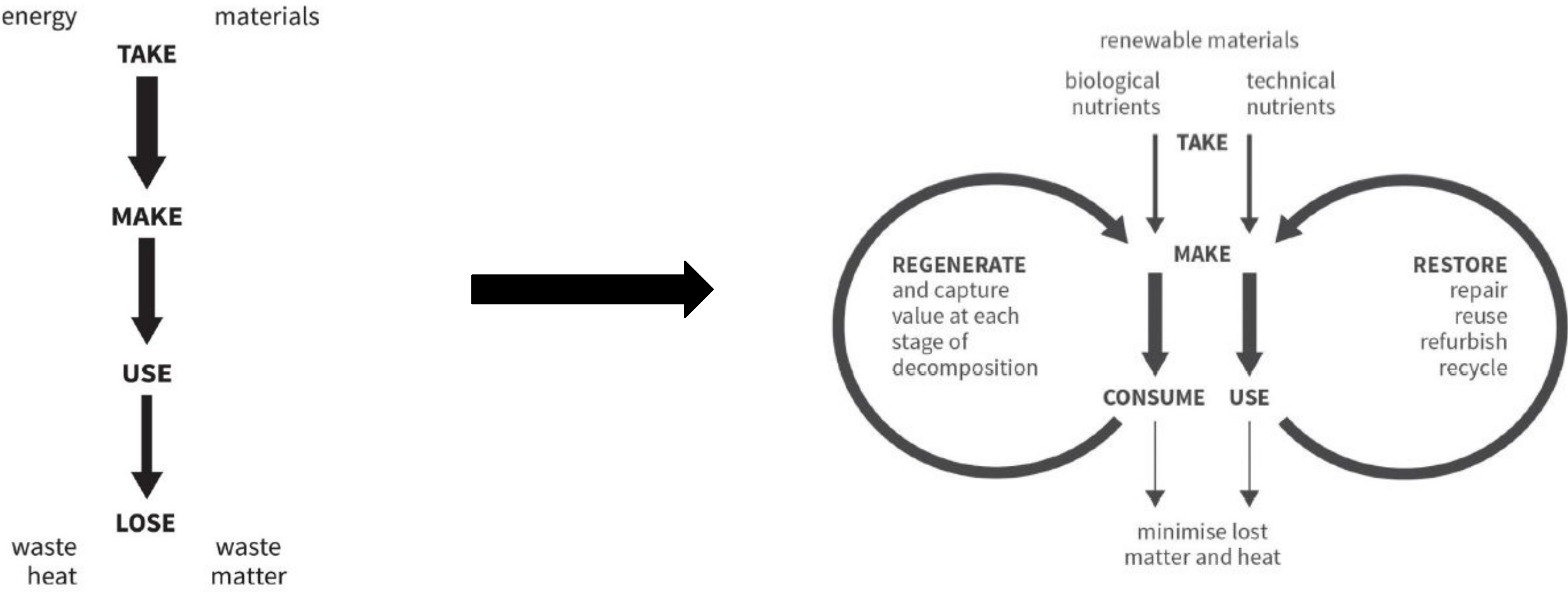
## The child labour example

*“246 million children are engaged in labor. Although the incidence of child labor has been falling globally, it is doing so unevenly, and in some areas it appears to be on the rise”*



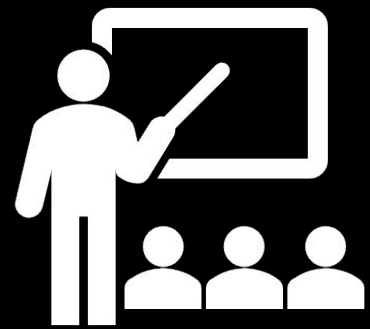








*Which one is your business aiming to do?*



## RECAP | IN SUMMARY

**Markets are important mechanisms to ensure the distribution of goods and services.** But they require a background structure to be implemented.

Markets promote **individual freedom** and ensure **efficiency**. But a number of market failures takes place.

**Moreover, they have and shape moral values:** as such, we ought to consider their impact, and what should or not be sold, beyond the concerns with efficiency and individual freedom.

**Different examples, show different justifications for restricting markets** – based on the initial distribution of the parties in cooperation, the nature of the good the parties' prior exchange and post exchange conditions.



# CHECK POINT REFLECTION

What have I learned in this module  
on the moral limits to markets?