3 The morality of the market process and the normative implications of catallactic competition

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3.1 Introduction

The most incredible fact in recent economic history is the rapid decline of extreme poverty throughout the developing world. According to the World Bank, the world's population currently living on less than two dollars per day has fallen from roughly 2 billion people in 1990 to 700 million in 2015 (Cruz *et al.* 2015). This dramatic reduction in poverty has occurred in spite of an increase in the world's population of about 2 billion during that same time. This 'Great Escape', as Angus Deaton has termed it, has been due to an *institutional* turn from central economic planning towards the market, specifically an institutional framework of private property and freedom of contract under the rule of law, particularly in countries such as China and India (Deaton 2013: 44). Moreover, the proportion of the world's population living in extreme poverty is the lowest it has been in recorded history. As of the end of 2015, the percentage of individuals living on less than two dollars per day has fallen to less than 10% of the world's population. Life expectancy has increased and the incidence of infant mortality has plummeted. Human beings are living healthier, wealthier, and more productive lives than ever. These astonishing facts remind us, as Robert Lucas has stated, that 'once one starts to think about them, it is hard to think about anything else' (1988: 5). In spite of this 'Great Fact' of economic history, as Deidre McCloskey puts it (2006, 2010, 2016), the market process is regarded, at best, as being orthogonal to questions of distributive justice and morality (see Heath 2018), and at worst, generating the conditions for atomistic greed, crass consumerism, or other social interaction that crowds out the scope for human flourishing.[1]

This raises the central question of this chapter: do the same institutional conditions that frame the market process also make the conditions for moral action *possible*? To answer this question, I will develop the normative implications of competition in the market process. As a value-free science, positive economics illustrates the economic consequences of different forms of competitive behaviour for resource allocation and income distribution. I explore the normative implications of competition under alternative institutional arrangements. In doing so, I distinguish between catallactic competition, based upon

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an individual's willingness and ability to pay for resources generated through trade and productive specialization, and non-catallactic competition, based upon legal status and privilege generated through political exchange. I argue that the normative implications of substituting market, or catallactic, competition for non-market, or non-catallactic, competition is that the conditions for human flourishing are made possible. Whereas catallactic competition tends to *liberate* the individual from arbitrary assignments of resources and income based on creed, gender, race, or legal status, non-cattalactic competition tends to *confine* an individual's potential for self-actualization to such arbitrary assignments.

3.2 The free market tradition: A critical assessment

In the wake of the collapse of centrally planned economies in Central and Eastern Europe, one of the most well-respected and outspoken socialists of his time, Robert Heilbroner, wrote in *The New Yorker* that capitalism had been triumphant over socialism (1989). He later declared that Ludwig von Mises, the great Austrian economist of the twentieth century, 'had been right' in his assessment of the inefficiency of socialism (Heilbroner 1990). As early as 1920, Mises had argued that economic calculation under socialism would be impossible. By abolishing private property in the means of production, exchange ratios in the form of money prices would not emerge to calculate the scarcity of capital goods relative to their alternative consumer uses. Therefore, socialism would be unable to organize production more efficiently compared to capitalism (Mises 1920 [1975], 1922 [1951], 1949 [1966]).

Though the debate over economic calculation under socialism has been settled, Mises had also been right about something else: 'A social system, however beneficial, cannot work if it is not supported by public opinion' (1949[1966]: 865). It is because capitalism is still regarded as being inherently unjust[2] that it has not yet been fully vindicated (Kirzner 1989 [2016]: 5). For example, in a recent article, philosopher Joseph Heath has declared the following: 'The one thing that can be said with certainty, however, is that the way wages are set in a market economy strikes most people as morally counterintuitive, if not positively unjust' (Heath 2018: 3).

Indeed, Mises' critique of socialism was *neither* a normative critique of the declared ends of socialism (1920 [1975]: 120), nor a normative defence of the moral superiority of capitalism. Rather, it was a positive critique regarding the internal consistency between the stated end of socialism, namely, to deliver advanced material production to the benefit of the least advantaged in society, and the means by which to achieve this end, namely, to abolish private property in the means of production. Mises had been trying to illustrate that socialism would fail on its own terms, no matter how benevolent or motivated central planners would be about meeting their stated ends. That said, it would be false to conclude that either Mises or the broader free market tradition of which he was part, were silent or otherwise bereft of sympathy towards the economic and social conditions of the poor working class of society. If anything, free market economists from at least the time of Adam Smith have consistently *shared* the same ends as its critics, including the elimination of exploitation of the poor and least advantaged in society. Smith went so far as to argue that the economic *and* moral superiority of capitalism was *dependent* upon eliminating artificial barriers that prevented the least advantaged in society from realizing their full potential.

> The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backwards.
>
> (Smith 1776 [1981]: 75)

> No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged.
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> (Smith 1776 [1981]: 96)

Building on Adam Smith, the founder of the Austrian school of economics and one of the pioneers of the Marginal Revolution, Carl Menger, writes the following:

> The economic policy of classical political economy was precisely dedicated to the most immediate and urgent needs of the time in which it came into being, a time full of unjust class privileges and detrimental restrictions on the poor and weak, full of irrational and self-interested over-regulation. Smith and his disciples recognized the needs of *Social-Politik* in their time very precisely when they first pressed for the abolition of the harmful restrictions on workers and when they opposed the state interventions in the economy detrimental to the poor.
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> (emphasis original, Menger 1891 [2016]: 482)

This statement by Menger is evidenced not only in the quotes from Adam Smith, but as I show below, also among early neoclassicals, such as Alfred Marshall, running throughout the twentieth century to free-market economists of the Chicago School, including Milton Friedman and George Stigler. For example, Marshall clearly shared the same concern as Smith and Menger with the injustice of inequality, particularly when it came at the expense of the least advantaged in society:

> The drift of economic science during many generations has been with increasing force towards the belief that there is no real necessity, and

> therefore no moral justification for extreme poverty side by side with great wealth. The inequalities of wealth, though less than they are often represented to be, are a serious flaw in our economic organization. Any diminution of them which can be attained by means that would not sap the springs of free initiative and strength of character, and would not therefore materially check the growth of the national dividend, would seem to be a clear social gain.
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> (emphasis added, 1920 [2013]: 594)

This consistent attention to the welfare of the least advantaged in society had led George Stigler to argue that '[e]conomists as a class have *always been opposed* to inequality of income' (emphasis added, 1949: 1). Building on this point, Friedman states that there 'is a clear justification for social action of a very different kind than taxation to affect the distribution of income', namely by adjusting

> the rules of the game so as to eliminate these sources of inequality. For example, special monopoly privileges granted by government, tariffs, and other legal enactments benefiting particular groups, are a source of inequality. The removal of these, the liberal will welcome.
>
> (Friedman 1962 [2002]: 176)

Therefore, the question amongst free-market economists has never been whether or not less inequality is a desirable end. The relevant inquiry, rather, has been regarding the most effective means to reduce income inequality. For classical political economists, and market-oriented neoclassical economists, income inequality is a consequence of a more fundamental injustice related to restrictions on economic and social mobility. 'The lesson of history, *explained by classical economic analysis*', according to William Hutt, 'is that disinterested market pressures, under the profit-seeking inducement, provide the *only* objective, systematic discipline that would dissolve traditional barriers and offer opportunities irrespective of race or colour' or other inherited attributes of individuals (emphasis added, Hutt 1964: 73). Therefore, labour market restrictions are regarded as immoral not because of their effect on the distribution of income per se, but rather because they cause disproportionate harm to the least advantaged in society. We will return to this latter point in greater detail in Section 3.4.

In spite of the fact that, from Adam Smith onwards, economists identified as defenders of the free market have consistently and persistently upheld the welfare of the least advantaged in society as the normative benchmark by which to assess the performance of markets, this message has become lost in translation. Why, then, has it been the case that free markets have come to be regarded as unjust, immoral, and deaf to the cries of the least advantaged in society? For the purposes of the point being made here, namely that the same institutional conditions that make free markets possible are also the same institutional conditions that make moral action possible, I shall offer two explanations.

The first explanation is one suggested by Walter Lippmann in *The Good Society* (1937 [2005]). Lipmann gives 1870 as the year from which liberalism coincidentally entered into an intellectual crisis of its own construction. The irony is that the classical political economists predating the Marginal Revolution, who had explicitly outlined the institutional conditions necessary for the free market as well as liberalism, had come to be identified with extreme laissez faire, which seemed unable to address the realities of monopoly power, of inherent instability caused by the speculative behaviour of financial capital, and of the inequalities and injustice that resulted from concentrations of wealth. The new liberals of the progressive left, though, in their effort to respond to this earlier intellectual weakness, moved too easily into collectivism. There is a modicum of truth to this argument, but not due to any moral callousness, lack of concern for the poor, or indifference to income inequality among defenders of a market economy. Rather, the association of the free markets with laissez faire is indicative of a misunderstanding of the proper institutional conditions framing a market economy.

This misunderstanding was borne out of a *methodological* transition in early neoclassical economics and the equilibrium paradigm that was later adopted by neoclassical economists, who did so to rectify the deficiencies left by classical political economists, including the 'failure to work out the theory of the effects of competition on the distribution of income' (Stigler 1957: 5). For example, in attempting to illustrate that the outcome of the market process resulted in income distributions that were not exploitative, John Bates Clark (1899) and Phillip Wicksteed (1894) based their analysis upon an application of Euler's theorem to the distribution of income. Euler's theorem states that, under the assumption of constant returns to scale, the separate marginal value products of each factor of production exhaust the total value of output. The exhaustion of payments from total output to factors of production had both positive and normative implications. Positively speaking, Euler's theorem illustrated mathematically that the share of total output accrued to owners of capital is derived from its marginal contribution to output. Normatively speaking, this implies that the redistribution of income is unjustified, since the income paid to capitalists is not a result of exploitation or theft of labour income. Moreover, to the extent that modern defenders or critics of Adam Smith have focused on the allocative efficiency of the free market understood as an outcome of the invisible hand, this has been filtered through an equilibrium paradigm. Therefore, it is more appropriate to claim that early neoclassicals, at best, illustrated that the distribution of income by free markets was *not unjust*, rather than claiming they illustrate that it is just, since an equilibrium analysis of free markets cannot justify the residual payments, such as profits to entrepreneurs. By neglecting the role of competition and entrepreneurship, and leaving undefended the role of entrepreneurial profits in the market process, ironically, early neoclassicals adopted the same normative implications regarding the justice of the market process as those held by the early Marxists against whom they were defending the distributive justice of the free market. Given that neoclassical economists took equilibrium as their theoretical point of analytical departure, defining entrepreneurial profits out of existence, the presence of firms selling goods above opportunity costs not only implies monopoly power, but even worse, the presence of 'unearned' rents to capitalists (see Boettke, Candela, and Woltz 2018, 2021; Kirzner 2019).

Thus, an equilibrium paradigm, by definition, excludes from its analysis not only the appropriate institutional conditions upon which free markets, but also moral agency, are based. That is, in a world in which all the gains from trade have already been exhausted, as is the case in equilibrium, the *process* by which such gains become created, become realized, and become exhausted by human agency within alternative sets of institutions becomes irrelevant to the positive as well as the normative analysis of markets. The irony is that the so-called 'free market' in this model, one that is populated by *homo economicus*, who maximizes passively to constraints, is a model that is devoid of free human agency, upon which moral action, and markets, are based. To be free implies responsibility for one's actions, which in turn presupposes human moral agency. But instinctual response to constraints, as is the case with *homo economicus*, is inconsistent with human agency. Moreover, in a world of equilibrium, one in which transaction costs are zero, markets are unnecessary and redundant, since resources have already been allocated to their most valued uses. In the words of the nineteenth-century French political economist, Frédéric Bastiat, one of the most eloquent defenders of the market process, 'the worst thing that can happen to a good cause is, not to be skilfully attacked, but to be ineptly defended' (1996: 107).

This raises the second explanation, which is fundamentally the basis for the first as well. As I have argued elsewhere (see Boettke and Candela 2017, 2019), early neoclassical economists had a common understanding of the proper institutional context undergirding a liberal market order. However, the Marginal Revolution had begun a tendency that relegated such a common understanding to the background of analysis. What emerged into the foreground was a growing emphasis on analyzing markets as equilibrium states rather than processes. The twin analytical revolutions of subjective utility theory and marginal analysis would repair most of the serious difficulties in the economist theories of value, cost, exchange, production, and distribution during the 1870–1930 period. However, the institutions that frame a liberal market order were taken as given, so much so that their role in providing the rules governing a market economy, which critics of liberalism claimed to be lacking, had become relatively neglected, resulting in the notion that markets operated in an institutional vacuum.

The resulting association of liberalism with *laissez faire*, therefore, required a rearticulation and restatement of the role that institutions play in the operation of a liberal market order. Among the economists at the forefront of this intellectual effort was Lionel Robbins of the London School of Economics. In

The Theory of Economic Policy in English Classical Political Economy (1952), a book written during the 1930s, but not published until after the Second World War, Robbins argued that critics of economics were wrong to suggest that classical political economists from Adam Smith to J. S. Mill treated economic actors as asocial beings devoid of any historical and institutional context. Quite the contrary, classical political economy always saw commercial activity embedded within legal, political, and moral contexts.

> The English Classical Economists never conceived the system of economic freedom as arising *in vacuo* or functioning in a system of law and order so simple and so minimal as to be capable of being written down on a limited table of stone (or a revolutionary handbill) and restricted to the functions of the night watchman. Nothing less than the whole complex of the Benthamite codes – Civil, Penal and Constitutional – was an adequate framework for their system.
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> (emphasis original, 1952: 188)

It was only by resurrecting an analysis of the institutional preconditions of a market economy that the moral content of the market process could be reintroduced by its defenders, and its normative implications analyzed.

3.3 Cattalactic vs. non-catallactic competition

Before turning to the normative implications of competition in the market process, it is first important to provide a positive analysis of the *institutional* basis for the market process as well as its consequences. I use the word 'institutional' to emphasize that the distinguishing characteristic of the market process is *not* competition based on *laissez-faire*. While this statement may seem controversial, a simple 'unpacking' of the words 'competition' and '*laissez-faire*' will lead us to understand, first, why such a characterization is highly misleading, and, second, what distinguishes the market process from other forms of economic and social interaction.

First, competition, at its most fundamental level, is nothing more than *a process of conflict resolution*, and, therefore, is a universal attribute of all human interaction across time and place. Given the fundamental pervasiveness of scarcity, *every* form of economic and social interaction is inherently competitive in that individuals must resolve how to fulfil their own individual ends, which are always greater than the means to achieve such ends (Alchian 1965; Alchian and Allen 1972). No economic or social system, such as capitalism, communism, or fascism, can abolish scarcity, and therefore cannot eliminate competition. While competition is ubiquitous, the manner in which competition manifests itself is *institutionally contingent* (Boettke 2012). Therefore, to characterize a free market economy as a 'competitive system' implies nothing about the unique *manifestation* of competition in the market process.

Secondly, this brings us the distinguishing *institutional* characteristic of a free market economy, which is *catallactic competition* within a legal framework of well-defined and well-enforced exchangeable private property rights. To argue that a free market economy is a *laissez-faire* economy implies that markets operate within an institutional vacuum, without any account of the rules governing what forms of competition are sanctioned and those that are prohibited by formal and informal rules.[3] As F. A. Hayek has stated on this point:

> a government that is comparatively inactive but does the wrong things may do much more to cripple the forces of a market economy than one that is more concerned with economic affairs but confines itself to actions which assist the spontaneous forces of the economy.
>
> (1960: 222)

That is, the distinguishing characteristic of a free market economy is one in which a governing authority enforces *exchangeable private property rights*. Property rights, broadly speaking, refer to a set of sanctioned social relationships that define one's expectations regarding the utilization of scarce resources (Furubotn and Pejovich 1972: 1139 see also Barzel 1997).

Private property rights refer not to rights to an object *per se*, but a set of rights to *action*, including the right to exclude, use, and exchange resources. Secure private property rights imply that individuals have the ability to exclude resources from both private and public predation, including one's own labour. Excludability of resources assigns residual claimancy over the costs and benefits of an action initiated by an individual. Without private ownership, when a person uses resources, they impose costs involuntarily onto third parties, also known as externalities. Therefore, private property rights provide accountability over the costs and benefits of an individual's actions through the internalization of positive and negative externalities (Demsetz 1967: 350). Through such internalization, private property rights promote social responsibility since the decision-maker of a particular action must bear the full cost of his action. From this perspective, if 'market failures' associated with business cycles, externalities, monopoly power, or public goods are systematic and pervasive, this implies a government failure to enforce private property rights, or the preclusion of entrepreneurs from bearing the full costs and benefits of their decision-making. The right to use resources implies that individuals have the ability to use resources for direct consumption, deferred consumption (i.e., savings and investment), and *indirect* consumption via productive specialization and trade. It is the distinct ability to use one's land, labour, and capital to *compete* by productively specializing in one's comparative advantage and trading resources that distinguish the right to private property from other forms of property, such as public property or communal property. It is in this sense that Ludwig von Mises (1949 [1966]: 274), F. A. Hayek (1976: 108–109), and James Buchanan (1964: 216–217) referred to such competition in the market process as *catallactic*.

The term 'catallactics' was first used by Reverend Richard Whatley in 1831 to suggest a replacement for the word 'economics', which is derived from the Greek word *oikonomia*, meaning 'household management.' Such a term misleadingly implies that economic science is about the deliberate allocation of resources via the conscious direction of given means and given ends. The term 'catallactics' is derived from the Greek verb *katallattein* (or *katallassein*), which means 'to exchange', and 'to admit into the community', as well as 'to change from enemy into friend' (see Hayek 1976: 108–109). Mises, Hayek, and Buchanan revived this term in the twentieth century to emphasize a broader point about the market process, which is to say that productive specialization and exchange is a *peaceful* and *cooperative* form of competition, the conditions of which also provide the *possibility* of human flourishing. How this possibility is realized by individuals will be discussed in greater detail in Section 3.4. Suffice it to say, a free market economy provides the institutional context for this possibility, since the security of private property establishes the conditions for moral agency and, by its very definition, must prohibit individuals from competing for resources through the utilization of violence, either directly through private predation or indirectly through public predation. Therefore, a free market economy implies that private property rights are secure *under the rule of law*.

The rule of law refers to the absence of political or legal privilege among market actors *and* the absence of arbitrary discretion among political actors. It is a political–legal principle, whereby the governing authority of a particular society is restricted to enforcing laws applied equally to all and not intended to benefit one particular party at the expense of another. Any violation of the rule of law implies that political or legal privileges cannot be granted without simultaneously granting discretionary power to those political actors who are in the position to grant such privileges. Therefore, the presence, or lack thereof, of the rule of law determines whether human interaction will be positive-sum or negative-sum in nature (Candela and Piano 2018).

Without the rule of law, catallactic competition will degenerate into non-catallactic competition, namely the indirect use of violence to compete for resources. Such competition manifests itself in entrepreneurs courting the favour of those in power in order to obtain tariffs, monopoly privileges, or other regulations that protect them from competition in the market place, a competitive process known as rent-seeking (Tullock 1967). The opposition to government intervention into the market process by proponents of the free market is not due to an objection to government enforcement of 'the rules of the game.' Rather, from Adam Smith to Vernon Smith, the opposition among free market economists to government intervention is due to the fact that government intervention fundamentally changes the rules by which the game is played by entrepreneurs. Because in a free market entrepreneurs are barred from rent-seeking, the rules of the game dictate that they can only compete against each other successfully by benefiting others, namely by offering goods and services that consumers value. Government intervention, by its very nature, introduces political and legal discretion, which represents a profit opportunity for entrepreneurs to capture for their own private benefit at the expense of other producers in the market process, to say nothing about consumers (Stigler 1971). Therefore, government intervention tends to redirect the allocation of entrepreneurial talent from productive and catallactic activities to unproductive and non-catallactic activities.

3.4 Natural and artifactual man: The morality of the market process

In the previous section, we discussed the positive implications of catallactic and non-catallactic competition, the purpose of which was to establish a positive basis for the normative implications of such forms of competition. This positive basis for the morality of the market process can be summarized as follows: *there exist mutual gains from productive specialization and trade*. In doing so, I illustrate how the institutional conditions of the market process also provide the context within which moral action is made possible, and how interventions into the market process tend to create the possibility of immoral action.

In order to understand the non-normative basis for the normative implications of the market process, we must first begin by stating that, going back to Adam Smith, a consistent analytical approach to positive theorizing has existed among proponents of the free market (though it is not exclusive to them), dubbed by economists Sandra Peart and David Levy as 'analytical egalitarianism' (2008). According to this approach, the analytical thrust in explaining differences in economic outcomes across place and time is placed on differences in institutions. Analytical egalitarianism abstracts away from any inherent or observed differences among individuals by treating them, from an analytical standpoint, as natural equals, in order to illustrate how alternative institutional arrangements filter through different manifestations of competition, and as a by-product of such purposive behaviour, different economic, political, and social outcomes. James Buchanan summarizes this approach quite nicely in the following statement: same players, under different rules, generate different games (Buchanan 2008). From an analytically egalitarian standpoint, all individuals are striving to actualize their own potential under the given circumstances they face, and therefore, whether or not they realize this potential will depend upon the free exercise of their agency.

At first blush, analytical egalitarianism may seem to be a highly unrealistic theoretical approach, but in order to further unpack this idea, and illustrate its positive explanatory power for our normative purpose here, let us incorporate James Buchanan's distinction between 'natural' and 'artifactual' man (Buchanan 1979). According to Buchanan, self-actualization and human flourishing are defined in the process of one's own choices through time. The ability of individuals to imagine and become something different from what they already are is a categorical feature of being human. Human flourishing, therefore, is not defined by a set of constraints but is realized in the process of actualizing one's potential. That being said, this does not deny that individuals are born into a particular historical context, not of their own choosing, defined by inherited physical or biological traits, including race, creed, and gender, but also by the evolved cultural and legal norms into which the individual is born. This inherited aspect of an individual that constrains one's choice set is the 'natural' part of man. This natural aspect of man, however, does not predefine one's ability to lead a flourishing life but *becomes a part of what individuals will become*. Within these limits, therefore, by virtue of the fact that individuals must exercise their agency, there is an artifactual aspect of man that is dependent on the freedom to pursue one's human flourishing.

Thus, the point of employing analytical egalitarianism, for our purposes here, is both positive and normative. It is of course the case that individuals are different with respect to their 'natural' differences. However, from an analytical egalitarian standpoint, the relevant differences between individuals, namely those that explain income differences *across societies*, are *by-products* of productive specialization and social cooperation under the division of labour; such differences are not explained by innate traits or talents. Moreover, such large-scale productive specialization can only be realized under an individual framework of private property and freedom of contract under the rule of law. Therefore, the explanatory variable regarding differences in human progress are *differences in institutions, not differences in individuals*. Normatively speaking, by focusing on the universal attribute of all individuals and abstracting from one's natural characteristics, the moral justification for a market economy under the rule of law is that it *liberates* the individual from their human flourishing being confined to their natural self, and expands the scope for the artifactual creation of possible selves. Because this creative process cannot be defined independently of one's choice, the attenuation of private property and the rule of law is immoral in the sense that it introduces political and legal discretion that tends to confine one's flourishing to their natural self.

That the actualization of one's human nature has both universal qualities and qualities that are particular to each individual is not only consistent but also the source of the creativity and innovation required for a prospering liberal market order. In his recent book, *Mass Flourishing*, Edmund Phelps, Nobel Laureate in economics, argues that an institutional framework that protects private property rights, enforces contracts, and upholds the rule of law is a necessary condition for the emergence of the informal norms and values, such as creativity, risk-taking, and innovation, that drive economic growth. Normatively speaking, he states that the 'good' economy is one that provides the institutional conditions that protect the possibility of human flourishing among individuals (2013: 288). Employing an Aristotelian notion of human flourishing, Phelps recognizes universality in human nature that

> includes—at the highest level—a desire to express creativity, a relish for challenge, an enjoyment of problem solving, a delight in novelty, and the restless need to explore and to tinker. The pursuit and experience of these

> 'highest goods' is the way to human fulfilment—and to 'becoming,' which is a large part of it.
>
> (2013: 297)

Besides the universal nature of human flourishing, it is the unique and particular manifestation of one's self-actualization that is made possible by a liberal market order. As Phelps continues, an individual's

> *freedom to act* (or not to act) on their unique knowledge, judgement, and intuition may be indispensable to people's sense of self-sufficiency and thus self-worth. In this view, the freedom to take charge of one's own heading and make one's own mistakes is a primary good itself, one of huge importance.
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> (emphasis original, 2013: 59)

However, human flourishing, although individualized, cannot manifest itself in isolation; man is inherently a social animal.

Not only does human cooperation under the division of labour expand the possibility of human flourishing; it is ultimately also an expression of human flourishing (Kline 2008: 152). Human flourishing is not reduced to a single end but is also inclusive and constitutive of a series of intermediate ends spread over one's lifetime (Rasmussen and Den Uyl 2005: 129–132). From an economic perspective, trade is simply an alternative form of production, an intermediate step in a larger structure of production. Taken from a bird's eye view, what is regarded as a means to an end – exchange activity – at a snapshot in time is simply an intermediate end integral to the exercise of one's self-direction during their lifetime. For example, working as a waiter might be regarded as antithetical to realizing one's end of becoming a professor. Exchanging waiting services for money, at the moment of time, may be regarded as corrupting this pursuit, since such means are not intrinsically consistent with one's stated end. This conclusion, however, disregards the intrinsic worth of actualizing another good, such as self-responsibility, which is an end in itself, not only constituent to the more final ends, but also integral to the process of living a worthy life.

Should individuals wish to live peaceful lives as Robinson Crusoes, living independently from each other, this is of course consistent with a liberal market order based on non-coercion. But these would not be flourishing lives. Human flourishing is a radically social yet radically individualized activity, in that trade contributes to one's own self-actualization, and, as a by-product, contributes to that of others. 'Trading is an objective good' not only because it is inherent in our nature to truck, barter, and exchange, but also because 'it serves our biocentric need for physical survival that is fundamentally human' (Kline 2008: 152). Moreover, the fundamental importance of economic growth that is promulgated by human cooperation under the division of labour is not merely an increased level of material prosperity. As Deirdre McCloskey has written, economic progress is not merely about consuming more stuff. As she puts it, '[m]odern economic growth gives the scope to do much more, whether or not the opportunity has been fully seized by everybody' (2010: 65). In this sense, an expanded scope for catallactic competition expands the possible scope of human flourishing by expanding that *range* of options available to actualize their artifactual selves (emphasis added, Alchian 1967: 372). As Phelps adds, 'an increased general level of wages is liberating: it enables persons confined to the lower reaches of the available wages—unskilled workers, in the usual terminology—to move from work they previously could not afford to reject work that is more desirable' (2013: 47). Therefore, the extension of the division of labour not only increases productivity but also allows individuals the possibility of pursuing enterprises and of realizing productive possibilities that otherwise might not have been afforded to them.

This brings us to the connection between catallactic competition discussed in Section 3.3, artifactual man, and human flourishing. It is indeed the case that a free market economy has delivered economic growth and prosperity wherever the private property rights and freedom of contract under the rule of law have been secure. Critics of the market, however, argue that social interaction in the marketplace 'crowds out' the need for individuals to behave morally. This is not an unmerited claim, as even defenders of the morality of free markets unintentionally slip into language that might imply (though not necessarily so) that moral action is not necessary for markets to operate. For example, as Clark and Lee argue:

> It is our view that the most effective way to make a moral case for markets requires accepting the dominant view of moral behavior as a legitimate one, while recognizing that the superiority of markets is the result of their ability to generate desirable outcomes without relying on what is widely seen as moral behavior. This leads us to argue that markets are essential for decent and humane social order because they can be substituted for the morality of caring that is necessary for decent and humane relationships.
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> (Clark and Lee 2011: 2)

However, I do not wish to imply that it is the market process itself that *guarantees* or *makes* individuals act morally. Rather, the market process is a social and moral *space* (Storr 2008, 2009), or a framework within which moral action is made *possible*.

That said, catallactic competition increases the *scope* for human flourishing, while interventions into the market process create a tendency towards non-catallactic completion, and hence increase the scope for immoral action, specifically by stifling the creative process of one's artifactual self. While 'the free market does not make people moral, it raises the cost of unethical behavior' (Pejovich 1990: 16). Where, then, does the moral content of the market process reside? Indeed, there exists a common theme among free market economists across the twentieth century, including Armen Alchian, Gary Becker (1957), Harold Demsetz (1965), William Hutt (1964), Ludwig von

Mises (1927 [2005]), and Walter Williams (1982, 1989). This common theme is that *the market process tends to discriminate on margins that contribute to one's monetary preferences and tends not to discriminate on margins that contribute to one's non-monetary preferences*. The distinction between monetary and non-monetary preferences runs parallel to the distinction between artifactual and natural man, respectively. A restatement of this point then goes as follows: *the market process tends to discriminate on margins that realize one's artifactual potential and tends not to discriminate on one's natural margins*.

In making this distinction, my point here is twofold. First, to the extent that critics of the free market argue that decision making based on the profit motive is immoral, positive economics illustrates that this claim is *inconsistent* with also holding the normative claim that discrimination based in terms of race, creed, gender or other 'natural' characteristics is morally undesirable (Alchian and Kessel 1962: 175). Secondly, and normatively speaking, to the extent that private property rights are secure under the rule of law, the morality of the market process is based on protecting the possibility of individuals realizing their artifactual self through peaceful social cooperation and productive specialization under the division of labour.

In its broadest sense, discrimination, from an economic perspective, is an act of choice with scarce information (Williams 1982: 25). 'Discrimination, competition, and scarcity are three inseparable concepts' (Alchian 1965: 816), but the margin on which markets discriminate is *institutionally contingent*. Therefore, to the extent that private property rights are secure in a market economy, implying that individuals are bearing the costs and benefits of their decision-making, the possibility of an individual accruing greater wealth is not based primarily on their natural characteristics, but is a by-product of their artifactual creation of productive skills and talents. Conversely, when the exercise of legal discretion intervenes in the market process, the immoral implication is the tendency for individuals to be precluded from developing their artifactual self, thereby reducing the scope for human flourishing.

To illustrate this point, let us take the example of construction workers. By rational, I do not mean an egotistical sense of pure self-interest; I simply imply that the construction workers, like anyone else, prefer more of whatever they desire rather than less. They desire more income, but also may have aspirations that go beyond a pure monetary motive, including the ability to realize a better life for themselves and their families, or obtain a college education to engage in a more fulfilling form of employment. Suppose in their natural characteristics that the individuals are relatively equal in their productive capacity. However, the noticeable personal characteristic that distinguishes the two construction workers from each other is their skin colour. Suppose also that their present employer has a greater preference for workers with white skin. In this case, the total income of the owner of the construction firm includes not only the monetary profits that can be taken as disposable income but also non-monetary 'profits' taken as income 'spent' within the firm, in this case hiring workers to indulge their racial preferences.

By itself, the institutional conditions of a free market will not eliminate such preferences. However, our point here is that alternative institutional arrangements will affect how employers negotiate the trade-off between monetary and non-monetary income. This trade-off can be restated as follows: *as legal discretion becomes more effective against an employer accruing monetary income, the more likely it becomes that an employer will compensate for such legal discretion by accruing greater non-monetary income.* Therefore, government intervention into the market process, in the form of price controls, monopoly privileges, or other regulations, is immoral precisely because the cost of such coercion in the form of legal discretion is borne arbitrarily by individuals on margins for which they made no choice, namely their natural and personal characteristics.

To modify the previous example, let us suppose now that the construction workers are granted a special legal privilege, namely an exemption from antitrust laws (as is the case in the United States). This violation of the rule of law allows the construction workers to form a labour union and restrict the entrance of workers into the construction labour market. Restricting the supply of construction workers bids up their real monetary wages. To the extent that unionized construction workers are protected from competition by excluding non-unionized construction workers from the labour market, they will not bear the full cost in terms of foregone productivity by engaging in racial discrimination when choosing their members. It is therefore no accident that minimum wage laws, labour unions, and occupational licensing in countries such as the United States and South Africa were established not for the purpose of benefiting the least advantaged in society, but the exact opposite (see Hutt 1964; Williams 1982, 1989). 'The leading lights of American economic reform' during the Progressive Era of the early twentieth century, according to Thomas Leonard:

> advocated regulation of workers' wages and hours to bar or remove the unemployable from employment, on the grounds that their inferior nationality, race, gender, or intelligence made their economic competition a threat to the American working man and to Anglo-Saxon racial integrity.
>
> (2016: xii)

The immorality of such government intervention into the free market can be summarized in a twofold manner. First, the cost of legally assigning special privileges to particular interest groups is borne disproportionately by individuals with natural characteristics over which they had no choice. Second, legal discretion, by its very nature is a coercive transfer of resources, namely by granting a political official the power to grant special privileges to one party that cannot occur without simultaneously disadvantaging another party. When such discretion falls disproportionately on individuals with undesirable natural characteristics, namely by precluding them from freely contracting with other individuals or otherwise engaging in voluntary association, it reduces the scope for human flourishing. It therefore not only undermines an individual's ability to engage in productive specialization under a division of labour but also to develop their artifactual self.

3.5 Liberty and human flourishing

In the previous section, we emphasized the ethical implications of the market process as well as interventions in that process. These implications suggest that ethical primacy in the defence of a liberal market order must be grounded in the self-directed nature of human flourishing. In this section, I develop the political and social manifestations of that argument. I argue that liberty is a necessary condition for self-direction, and therefore paramount in protecting the possibility of human flourishing. In a political/legal framework that protects individual rights, markets are processes of moral discovery (Powell and Candela 2014). Markets can and do emerge in contexts outside of liberalism (Storr 2009: 290). However, only where the moral agency is protected from coercion can the possibility of human flourishing be fully realized. Therefore, the liberal market order is the institutional manifestation of self-direction.

In their most recent book, *The Perfectionist Turn* (2016), Rasmussen and Den Uyl argue that the 'moral hero' of ethical theorizing is not a merely rule-following agent, but the insightful entrepreneur. Entrepreneurship in the marketplace overlaps quite well with the self-directed nature of human flourishing. They are not synonymous with Robbinsian maximizing, but with the open-ended discovery of the means and ends required for a worthwhile life. In the *Nichomachean Ethics*, Aristotle elaborates on his definition of moral virtue in a manner that embodies entrepreneurial characteristics. Exercising moral virtues properly in the context of action means 'to have them at the right time, about the right things, towards the right people, for the right end, and in the right way, is the mean and best; and this is the business of virtue' (2000: 30). What this suggests is that human flourishing is a discovery process that integrates particular and contingent knowledge not only through self-reflection but also in association with other individuals, much like the Kirznerian entrepreneur.

Where private property rights are well-defined and enforced, profit-making in the marketplace is an extension of human flourishing. 'The central idea, for an understanding of individual liberty', Kirzner argues, 'lies in the individual's freedom to identify for himself what the opportunities are which he may endeavour to grasp' (1992: 66). As Rasmussen and Den Uyl argue, the

> analog here in ethics may equally be a recognition of a need for course-correction of one's action. One might notice, for example, some version of 'working too hard,' to the neglect of other important factors of one's life, such as family, friends, civic responsibilities, or even such things as one's own talents or the care with which one undertakes any of these.
> (2016: 293)

The rules of the game in a liberal market order structure one's ethical conduct. They give us the guidelines on how to 'play' the game. However, within the context of rules, entrepreneurship has moral significance precisely because its effect is to create information by which other individuals *learn* how to play the game *well*. This ethical content can only be substantiated at the entrepreneurial moment of choice, and cannot be built into the rules prior to playing the game. Human flourishing is an entrepreneurial discovery process, primarily of ourselves, but also of our relationship with others.

Without self-direction, self-interest can never be regarded beyond the instrumental role of passive utility maximization, analogous to *homo economicus* of neoclassical equilibrium models. By disregarding the role of self-direction, self-interest cannot be tied to excellent moral and intellectual development that is required for acting, adapting, and achieving virtue under uncertainty. An institutional framework that protects liberty as the paramount value allows for the possibilities of other values and allows individuals to discover what it means for them to be virtuous in order to achieve human flourishing. The argument in this section should not be regarded as a rejection of deontological or consequentialist modes of ethical theorizing; rather, the claim here is that such modes of ethical theorizing account for the rules required to facilitate social order (Candela 2018). Yet, such rules, and the generalized norms upon which they are based, must be derived from a deeper ethical foundation consistent with protecting human flourishing, and its economic counterpart, entrepreneurship. Private property provides the moral space for individual liberty, not merely because it minimizes coercion, but fundamentally so that individuals can *learn* what it means to be free. The exploitation of opportunities is a part of our human nature, and freedom can only be understood in terms of the individual expression of one's human flourishing.

3.6. Conclusion

Ultimately, the very same institutional foundations for the market process also provide the *possibility* of human flourishing. The institutional foundations of a free market cannot guarantee that individuals will self-actualize their potential and behave morally, since liberty and responsibility are inseparable. Though liberty implies that individuals are free to behave immorally, it does place costs on such behaviour by disproportionately increasing the gains from the catallactic competition and therefore increasing the scope of human flourishing. The violation of liberty, however, introduces coercion in the form of legal discretion. Such legal discretion is immoral not only because it increases the gains from non-catallactic competition. It is also immoral because the costs of discretion are disproportionately borne by individuals who possess non-preferred natural characteristics, over which they have no choice. The costs come in the form of forgone opportunities, not only to participate in voluntary association with other individuals but also the forgone opportunity to realize their artifactual self.

Notes

1 Though not unrelated, but beyond the scope of this chapter, are criticisms of the market process based on the existence of market failures associated with externalities, monopoly power, public goods, business cycles, and inequality.

2 Following the classical liberal economist William Hutt (1964: 9), I attribute economic injustice to any set of economic policies or institutional arrangements, which is intended to perpetuate, through arbitrary legal status, the inferior economic and social conditions of a group of people based upon inherited or otherwise accidental attributes, including creed, gender, nationality, or race. My focus on the *institutional nature* of economic injustices is not out of indifference to human failings associated with racism or sexism, but rather, taking such human failings as given, to understand the institutional arrangements that erode or exacerbate the indulgence of such preferences.

3 As Leeson and Harris (forthcoming) state, the current association of neoliberalism with the imposition of a 'free-market fundamentalism' takes out of context where the term 'neoliberalism' was coined, namely at the 1938 Walter Lippmann Colloquium, a precursor to the Mont Pelerin Society organized by Louis Rougier. Liberal scholars, including Hayek, Wilhelm Röpke, and Ludwig von Mises, gathered at the colloquium to discuss a 'new liberalism', and the perceived misunderstanding of the institutional conditions governing a market economy.

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