Overview

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"Teaching is the best way to learn a subject." I experienced the truth of this wisdom when I began teaching Economics: to explain the subject to a group of uninterested students demands a far deeper understanding than necessary to get a Ph.D. Is editing a volume also a way to learn an issue? It surely seems so. Despite my long-standing interest in the moral dimensions of market exchange, I gained a great deal in sifting through the journals, books, and anthologies to select the articles brought together here. Moreover it made me rethink my position on the issue of social responsibility of business.[1]

Morality of the Corporation

Milton Friedman's classic argument 'the social responsibility of business is to increase its profits' faces a thoughtful challenge economically from Don Lavoie and Emily Chamlee-Wright as well as ethically from Tibor Machan. *The Market Order and the Moral Order* by Lavoie and Chamlee-Wright and *Business Ethics in a Free Society* by Machan raise a serious dilemma for a libertarian. Their cogent case, buttressed by Brian Griffiths' meditations in *The Business Corporation as a Moral Community*, gave me many a sleepless night.

The neoclassical economics of perfect competition and general equilibrium models suggests that there is "one clear path towards profit maximization." Any deviation from this clear path implies that managers—fiduciary agents of stockholders—are not maximising profits. They are derelict in their contractual duty to stockholders and

1. Parth J. Shah 2001. (Ed.) *Do Corporations Have Social Responsibility?* Centre for Civil Society. New Delhi.

are exploiting the 'principal-agent' problem. Any act of 'social responsibility' is then misuse of stockholders' assets. Once we allow managers to deviate from the 'clear path,' there is no telling how far they would go. This diversion towards social responsibility, it is concluded, must be nipped in the bud, lest it undermines the principal engine of economic growth—the private enterprise.

The Austrian school of Ludwig von Mises and Friedrich Hayek has long challenged the perfect competition and general equilibrium economics as misleading in understanding the real-world market process. For them, competition is a discovery procedure by perceptive and risk-taking entrepreneurs in an ever-changing world full of uncertainty. There is no 'one clear path' but a constant process of learning and unlearning, of discovery and innovation, of judgements and decisions. The 'right' choices are not objectively defined by utility and production functions, but are subjectively conjectured by entrepreneurs with their limited and fragmented knowledge. There are actually multiple paths to profit-maximisation.

> If the world approximates the perfect competition model, there is little reason to even discuss the issue of moral decision-making because managers and business owners have no margin of discretion. In other words, the conclusion that managers have no social responsibility is bound up in the assumptions of equilibrium analysis. The view that profits are objective opportunities to be found… separable from the person of the entrepreneur who perceives them, suggests that there is only one correct path to achieving profit maximisation… Because seeking profit opportunities is more interpretation and judgment than optimisation, it leaves room for a multiplicity of profit strategies to emerge (Lavoie and Chamlee-Wright, p. 242 and p. 245).

Neoclassical economics gives a formalistic rather than realistic understanding of how markets work.[2] It views the economy as a closed text, as an optimization problem, and not as a polysemic text which is open to different and divergent readings and interpretations, not as a discovery of profit opportunities, some of which might involve 'socially responsible' actions. The Austrian view frees the market from the neoclassical straightjacket and places it in the material, social and cultural space of the human world, where there

2. See also Israel Kirzner 1998. *How Markets Work*. Centre for Civil Society. New Delhi.

is genuine uncertainty, learning, and discovery and where humans attempt to construct a world they find worth living in.

There is no 'one clear path towards profit maximisation.' And I would add that there is no one single rate of profit. In millions of market exchanges, multitudes of profit rates co-exist. A ten per cent monetary profit rate could be balanced by a five per cent monetary profit plus the psychic income of opposing apartheid or the United States. That could be balanced by 11.5 per cent monetary profit minus the psychic pain of investing in countries where basic human rights are routinely violated. The existence of ‘social or ethical investing’ clearly illustrates such trade-offs that people make.

The Austrian subjectivist critique makes the positivist economics underlying Friedman’s proposition untenable.

Building on the ethics of classical individualism—also called classical egoism—Tibor Machan proposes that the moral responsibility of individuals extends to all aspects of their lives. To be a moral human being is to be moral in all decisions of life. That part of life spent in the workplace or marketplace cannot be artificially compartmentalised to apply a different degree or type of morality. Moreover, businesses hire persons, not work machines. The values these persons hold ‘cannot simply be turned off once inside the corporate world.’

Warren Buffet once remarked: “In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don’t have the first, the other two will kill you.” A person has no integrity if his values change from place to place or time to time. Personal ethics is about guiding us consistently, coherently, and completely.

> Professional responsibilities are fully consistent with paying heed to other goals, including, fulfilling parental duties, being a good friend, enhancing the quality of one’s community, improving the environment, and developing and maintaining sound political institutions. … The totality of one’s moral tasks, combined with those arising from the fulfilment of professional tasks within the physical and political setting of one’s place of work, oblige one who is in the world of business to go beyond what Friedman claims he ought to pay exclusive heed to (Machan, p. 197).

The moral space for market actors is wider than that envisioned by Friedman. Integrity requires that individuals abide by their values in all dimensions of their work and life. People working in business may face different types of moral dilemmas and issues than those operating in other lines of work. Specialised ethics like business ethics and other professional ethics would deal with these differences and provide guidance in varied situations. But a specialised ethics is an extension of personal ethics and cannot be a substitute or contrary to it.

However, just as there are multiple paths to profit maximization and multiple rates of profit, there are multiple ways to articulate, embody and express one’s values. The usual insistence by advocates of corporate social responsibility (CSR) about the ‘correct and clear path’ that corporations should follow commits the same mistake as neoclassical economists. Both deny the agency of the individual in choosing the path to maximise profit or the path to ‘socially responsible’ action. The subjective paths to profit maximisation imply subjective forms of ‘socially responsible’ actions. Neither neoclassical economists nor CSR advocates can make any claims of a superior reading of the reality than the actors themselves. At least not superior enough to warrant compelling or coercing the actors to act against their own judgements.

There is indeed a scope (economically a la Austrians) and an obligation (ethically a la Machan) to go beyond profit maximisation suggested by Friedman. It should be clear that the obligation emerges from the agent’s personal ethics, it is not imposed in any way from outside.

Despite their disagreement with Friedman, Lavoie, Machan, or Griffiths—do not endorse the current CSR movement. They list a large number of grave objections to CSR. Importantly, they make a categorical distinction between morality and legality. All that is immoral cannot be made illegal. And all that is moral cannot be required by law. The demands of morality are generally higher than those of laws. Morality should not be legislated; an act loses its moral worth when it is mandated. The government should not require by law any type of ‘socially responsible action.’ Morality ends where coercion begins.

Alexei Marcoux’s chapter builds on these objections and offers a systemic critique of CSR in all its various incarnations. The stakeholder approach demands that profits of corporations must be shared by all stakeholders, and not be appropriated by shareholders alone. Surprisingly though, stakeholder theorists are silent about the sharing of losses. Why would one invest in equity if the gains are given to all but the losses are only for them to bear? Stakeholder politics—attempts to manage conflicting claims of various stakeholders in every major business decision—in corporate boardrooms and annual meetings would turn managers into politicians. Marcoux quips: “If a camel is a horse designed by a committee, then what misshapen beast is a firm shaped by the strategic interactions of its stakeholder representatives?”

To these objections I would add one more warning against CSR. Three broad components make a society: the state, market, and civil society in relation to the citizen, customer, and communitarian. Each component has its own function, role, purpose and character. One of the biggest challenges of modernity has been to define and maintain the separate domains of the three.

Historically when the state performed its basic function of protecting the life, liberty, and property, the institutions of civil society fulfilled the needs that the market did not directly meet. Fraternal organisations, self-help groups, denominational communities, professional associations (guilds), and charities provided education, healthcare, income insurance, and supported the needy. It was this vibrant social sector that Alexis de Tocqueville celebrated in his travelogue *Democracy in America* and predicted that democracy had great future when embedded in such a civil society.

Under the fatal conceit of socialism, at the turn of the twentieth century, the state began to usurp the role and functions performed by the market (the mercantilist state) and civil society (the welfare state). The shortages of the socialist economies have finally forced the state to withdraw from the domain of the market. And we have seen the benefits of the freer market in the last two to three decades around the globe. The state has still retained control over the functions of civil society. It remains to be seen when and how the civil society will gain freedom from the state.

Now the CSR movement is attempting to get the market—the corporation—to perform the functions of civil society, and in many cases, of the state. The expansion of the domain of the corporation would be as disastrous as has been the state dominance. The activists' objectives would be better served by working with the area that has the primary responsibility of the tasks they are concerned about. A
good society is one where all its three legs—state, market, and civil society—are of equal length.

Business Ethics: Friedman, Fox, and Freeman

So were does this leave us? Neither Friedman nor CSR advocates are quite right. Neoclassical economics underlying Friedman's prescription views businesspersons as robots programmed to maximise profits. Real life businesspersons not just balance the cost-revenue margin but also several other margins depending on their interests, conceptions of good or right, and their character. Managers' (employees') contractual obligation to shareholders (employers) is to maximise profits, but not at the cost of their ethics. They are hired not just for their job skills but for the totality of who they are—as human beings embedded in a particular personal, social and cultural space. This includes, inter alia, their values, their personal ethics. Individuals in business do not and should not sacrifice their personal ethics for profit.

Michael J Fox in the movie *For Love or Money* works as a concierge, who anticipates and goes out of his way to satisfy the needs of the hotel customers. His perceptiveness and foresight bring not just comfort but genuine happiness in the lives of customers. Would this behaviour be required in any contractual obligation of a concierge? There were other concierges who kept their job without doing what Fox did. Fox did not stop to ask whether this was his contractual responsibility. As the movie progresses, we learn that Fox was not faking his interest in his customers, that's the kind of person he really is. It is precisely because of the kind of person he is that the manager most likely hired him.

We do expect the anaesthesiologist, the nurse, the salesman, the receptionist, the waiter to go 'beyond the call of their duty.' Not just the public, but also their employers expect it. What do we mean by 'beyond the call of duty?' That they should act and behave as human beings with honesty, benevolence and empathy—with their moral traits. We desire that the encounter be 'human to human,' not 'anaesthesiologist to customer.'

As said earlier, employees are hired not just for their job skills but for the totality of who they are. When the personal ethics or character works in their favour, as in case of Michael J Fox, the employers do not mind—"well, that's part of the job." The same personal ethics at times would guide employees to act in a way that reduces profits. Employees with ethics may bring benefits or may cause losses.

This is not really an issue of efficiency versus ethics, but simply a recognition that efficiency in human undertakings depends on ethical behaviour. Recently I purchased an electrical kettle for my office so that people can make tea or coffee as and when they desired. Earlier, the helper made tea/coffee only twice a day. Would the increased flexibility and intake improve productivity to balance the increase in cost? I don't know. But I value the extra degree of freedom that they would enjoy.

The point is that employees are hired as and expected to act as human beings, in their full humanity. If we demand that from a concierge, why shouldn't we expect the same of managers, CEOs and Chief Mentors?

However, expecting is not the same as compelling them by law. The moral as well as efficient choice is to leave them alone—legally. But we can exhort, persuade, and shame them. We can be on their backs and on their hearts and on their minds—morally.

We must fight for what we believe—at the city hall, at the Rotary Club, at the restaurant, at the bus stop, at home, and yes, at the office. We cannot be asked to leave our values at the office door.

Milton Friedman must make room for Michael J Fox. So should Edward Freeman (the protagonist of the stakeholder theory of CSR).

Implications of Business Ethics as Personal Ethics

There is nothing particularly morally hazardous about business. Any human activity that involves choice between right and wrong has its moral hazards. Businessmen may face a larger number of moral dilemmas in their activities, but they could scarcely be more than those faced by bureaucrats or politicians, or for that matter, by professionals like doctors and lawyers. What is required then is not some special ethics for businessmen or politicians, or lawyers but an ethics to guide every one of us in all our endeavours. Business morality is simply personal morality. No more and no less.

Friedman's prescription should then be rephrased, 'social responsibility of business is to increase its profits in accordance with its ethics.' Businesses are legal and not living entities. Individuals managing or working for businesses act, make choices, and have values. They should act according to those values, whether inside or outside the office.

Does the addition of 'in accordance with its ethics' vitiate Friedman's overall prescription? His recommendation was to "make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in *ethical custom* " (my emphasis). It is plausible to read the qualifier 'in accordance with its ethics' being subsumed by Friedman's 'ethical custom.'

The difference, I submit, is on whether the people in business can go beyond 'ethical custom'. Can they live by their personal ethics when it demands more than the 'ethical custom' of the society? Can they be entrepreneurial in ethics as they are in economics? Can they be allowed to discover new, innovative ways to express their personal ethics in the workplace? Or shall they limit themselves by the society's 'ethical custom' of the time?

The Austrian understanding of entrepreneurship in economics extends to entrepreneurship in ethics. Perceptive and risk-taking entrepreneurs discover profit opportunities, and similarly uncover opportunities to live by their personal ethics. Maximising of profits is not equal to solving the optimisation problem of given supply and demand schedules. Living ethically is not equal to following some set rules. Entrepreneurial discovery is at the heart of the market process as well as the moral process.

Employers (shareholders) are not required to retain employees (managers) whose personal ethics bring losses. Surely, if an employee claims that her ethics require giving goods to the poor for free, she would be let go. This will apply to the worker as well as to the CEO.

The fact that it is ultimately other people's money does create certain moral obligations on employees and managers. The CSR advocates typically fail to focus on these obligations. The first obligation is of disclosure, transparency, and accountability. If any project were to require a 'large' sum of money or long-term commitment of the company, it should be disclosed and permission be asked from shareholders. It should be part of the regular agenda of annual general body meetings. Second, each individual in the company should be able to live by her personal ethics, not just the CEO or the top management. The usual appeal by CSR advocates to only the top boss undermines the universality of this moral obligation.

It should be clear that to live by one's personal ethics is not to engage in random acts of charity but to refuse to abandon or undermine any of one's values while pursuing profits, while fulfilling one's contractual obligations. It is in this sense that good business ethics is good personal ethics. The corporate social responsibility, if it can be called that, is to articulate one's personal ethics and act on it within the corporation—consistently, coherently, and completely.

How does one decide on a personal code of ethics? Education and persuasion are the only appropriate means. Aristotle distinguished between intellectual virtue and ethical virtue. "Ethical virtue is for the most part the product of habit (ethos) and has indeed derived its name, with a slight variation of form, from that word… Our moral dispositions are formed as a result of the corresponding activities… It is therefore of no small moment whether we are trained from childhood in one set of habits or another: on the contrary it is of very great or rather supreme importance." Brian Griffiths elaborates: "This insight, namely that the formation of a habit is of supreme importance in developing ethical behaviour, is typically associated with the raising of children, but it is just as relevant for the implementation of a moral standard within a company." Generally parents and teachers provide ethics education. But as Griffiths argues, corporate leaders can play an important role in cultivating values in the organisation.

The habit of ethical behaviour is difficult to cultivate. C.S. Lewis asked: "Is there a difference between a man who thinks honesty is the best policy and an honest man?" Sure, an honest man is honest by habit and not by cost-benefit calculation. How does one become habitually honest? Historically religion has played an important role. But in this largely secular age, blind obedience to any commandment is not feasible. Moreover, the cost-benefit calculus comes naturally to modern human beings and cannot be suspended forever. Given this reality, the only way to be honest is to convince ourselves through the cost-benefit calculus that honesty is the best policy. The critical issue is to understand and account for *total* costs and benefits. It is to take into account consequences of our actions on as many relevant entities as possible and over as long a period of time as possible. With this extended understanding and knowledge, individuals may decide in each case that honesty is the best policy. Only over a period of time, can this policy become a habit.

The difference between selfishness and self-interest could be seen as the degree of one's knowledge of consequences. Selfishness is the refusal to think about or take into account the impact of one's action now or over a period of time on self and others. With rational analyses and extensive experiences, selfishness metamorphoses into self-interest. Gurcharan Das has explained this difference eloquently in the Foreword.

Again there are parallels between economics and ethics. In economics, private property and free competition provide the basis for reconciliation of self-interest with social interest. That is Adam Smith's famous Invisible Hand. Within an economic system of private property and competition, the self-interested actions of individuals lead to social welfare. In ethics, fuller knowledge and understanding of the consequences of one's actions provide the basis for evolution of selfishness into self-interest and for reconciliation of self-interest with social interest.

"It is, thus, always important to keep in mind that professional [personal] ethics depends mainly on constant vigilance, on sustained discretion and prudence, and on wisdom, rather than on certain set rules. It is true here as elsewhere that character is destiny" (Machan, p. 203)

Morality in Commerce

In the *Fable of the Fees*, Bernard Mandeville argued that in markets private vices like vanity and avarice turn into public virtues of abundance and prosperity.

> Millions endeavouring to supply
> Each other's lust and vanity…
> Thus every part was full of vice
>
> Yet the whole mass an earthly paradise

The moral of Mandeville's line of argument:

> Fools only strive
>
> To make a Great and Honest Hive…
> Without great Vices is a vain
>
> Eutopia seated in the Brain

As Griffiths aptly points out, the market can be defended by normal ethics and the sleight of Mandeville's hand is unnecessary. That defence is lyrical but not logical—one does not need to endorse vices to recognise the benefits of voluntary exchange.

D.N. McCloskey in *Bourgeois Blues* identifies and celebrates virtues of the bourgeoisie. Capitalism in the last two hundred years has created unimaginable prosperity, however, our instincts favour aristocratic virtues (Honor; Loyalty; Courage; Pride of being) or peasant virtues (Duty; Reverence; Humility; Benevolence; Fairness; Charity; Pride of service) but disdain bourgeois virtues (Enterprise; Honesty; Thrift; Trustworthiness). Even the existence of bourgeois virtues is rarely ever recognised.

We cherish virtues of the soldier, worker, and the artist, but not of the merchant. In reality, commerce has the most civilizing influence. "We all take happily what the market gives—polite, accommodating, energetic, enterprising, risk-taking, and trustworthy people" (McCloskey, p. 123). Bourgeois virtues have made civilisation possible.

Our literature, plays, and films reflect this moral indignation of businessmen. They are the most common villains. Several classics exist where businessmen are portrayed as immoral, exploitative, reprehensible characters. It would be hard to find a work, let alone a classic, that shows businessman as a hero. It is assumed that success in business requires no higher virtues. We teach business management but not the mercantile virtues that are at its base.

Prices, Wages, and Exploitation

Many argue that markets may work in developed countries but in underdeveloped economies markets are the means for exploitation. The benefits of the market, as generally recognised, accrue in a system of private property and free competition in an environment of general security of life, liberty, and property. It is precisely the lack of properly defined and enforced property rights and the absence of a rule of law that provide the setting for exploitation in underdeveloped societies. Here the markets are not competitive but feudal, with one employer, or a moneylender or a grocer. But ban or strict regulation of these markets has rarely been a workable remedy. Hardly any government machinery exists in these rural areas, and when it does exist, it is typically controlled by the people that are supposed to be regulated by it. People working in local governments are as dependent on the feudal lords as is the general population. So prohibitions and regulations have been seldom effective.

Moreover, removal of the moneylender, for example, does not really address the problem. People do need credit. Where would they go? The monopoly power in feudal markets is commonly achieved and maintained by the threat of violence. Proper law and order—police and the judiciary—would go a long way in tackling the power of feudal markets. That should be the central focus of government action in making these markets competitive. It surely is not easy for the government to provide this protection but it must persist since no one else can fulfil this responsibility. And the basic protection will be a more effective solution in the long run than trying to regulate interest rates or enforce minimum wage laws. Moreover, if people have the confidence that the government will protect their life, liberty, and property (however little it may be), they also will be able to find ways to tackle feudal exploitation. The sense of security will increase mobility, access to information, and entrepreneurship that will generate market competition so that the people will not be at the mercy of a single seller or a buyer.

The tragedy is that the government itself in most cases exploits the poor. In urban areas, entry-level professions requiring low capital and skills, like street vendors, cycle rickshaw pullers, barbers, small shop owners need a license to operate, which are limited in number and difficult to get. They therefore face constant harassment, humiliation, and extortion. Government functionaries extract several million rupees a month in many cities of India from these barefoot capitalists.

In rural areas, restrictions on movement and marketing of agricultural products and minimum support prices depress incomes for farmers and farm labourers. In addition, the government has nationalised the two most important resources of the rural people: forests and water. Having lost the most economically lucrative resources, people in rural areas do not have much to earn an honest living. On the one hand, the government spends huge sums for employment generation schemes in urban and rural areas, but on the other hand it destroys the very means of livelihood for small entrepreneurs and agriculturists.

Remove restrictions on entry-level entrepreneurs and on the movement and sale of agricultural produce, give forests and water resources back to the people, and provide an effective rule of law. These will create competitive and remunerative markets—the best relief to people from the exploitation of feudal markets.

The Morality of Profits

In the chapter 'Discovery, Private Property, and the Theory of Justice in Capitalist Society,' Israel Kirzner offers a new conception of the nature and morality of profits. Neoclassical economics views profits as simply a payment to a factor of production—the entrepreneur. She provides an input and like other factors of production takes according to her marginal contribution to the revenue stream of the company. This marginal productivity theory implies that the income of the entrepreneur—the profit—is deserved or just.

Most people however find it difficult to digest that Bill Gates' marginal contribution to Microsoft equals 80 or so billion dollars. Another view is to attribute this gain to good fortune or sheer luck— just being at the right place, at the right time, with the right product. If Bill Gates' wealth, to a little or a greater extent, is the result of good luck, then it will be seen as largely undeserved. We may be willing to accept it as his wealth, if we do not believe in forcibly taking it away directly or indirectly through the government. But we surely would not see it as just or moral.

Kirzner suggests that the above two alternatives—that profit is the result of productive input or a result of good fortune—do not exhaust all the possibilities. In the third alternative, pure profit is a result of a perceptive discovery.

> An act of discovery, even though it is not an act of deliberate production, is the expression of human motivation and human alertness. That which has been discovered might *never* have been discovered but for this motivation and alertness; it is quite wrong to see the discovery as merely the product of blind chance" (p.165) … The inspired hunch which leads the discoverer to notice islands where others see only clouds, to notice opportunities for innovative products or innovative applications of technology which others fail to see, is as creative, in its own context, as the inspired vision of the sculptor who sees, in marble and chisel,

> not merely marble and chisel but a sublime form awaiting to be brought forth. Recognition of this creative aspect of the act of discovery seems to underlie a widely shared ethical conviction,
> that embodied in the notion of 'finders, keepers' (p. 167).

This finders-keepers ethic suggests that the pure profit of Gates is a reward for discovering an opportunity that others failed to see and which would not have existed but for him. His act that created the opportunity makes the wealth justly his.

The creative act of discovery, Kirzner persuasively argues, explains the nature or source of pure profit and provides its moral defence. The same process accounts for the claim of private property right in natural resources—inputs that are not the result of production by human beings. The natural resource would have physically existed even when no human being was aware of it existence. But for social or human purpose, it comes into existence only after someone has discovered it. The discoverer, as per the finders-keepers ethic has the property title to the resource. Kirzner thus provides an innovative defence of the morality of private appropriation of original resources (better than John Locke and Robert Nozick) as well as of the nature and morality of pure profits (better than John Bates Clark or neoclassical economists).

The Ethics of Exchange

The discussion so far on business ethics, bourgeois virtues, and the morality of profits captures the essential themes of Section B: Morality in Commerce and the Corporation. The chapters here compelled me to rethink the issue of business ethics, and therefore I discussed Section B of the book first. With the help of the chapters in this section, I argued that good personal ethics is good business ethics. Moreover, the recognition that the moral space for market actors is larger than what Friedman conceives does not justify the current corporate social responsibility movement or government mandates to that effect. Friedman's neoclassical economics and to a limited extent his conception of ethics are challenged, but his libertarian politics remain intact.

In Section A, The Ethics of Exchange, Peter Boettke builds on the foundations of Henry Hazlitt and Ludwig von Mises to suggest that social cooperation should be the criterion to judge the morality of institutional arrangements. Properly designed institutions, informed by the understanding of economics, can bring about coincidence of 'right' and the 'good.' What is moral would also be beneficial—to the individual and to the society.[3]

'I, Pencil,' the classic from Leonard Read, illustrates the marvel of cooperation that permeates the market. No one person in the world knows how to make a pencil. Can anyone put together a pencil from natural resources? Even for a simple product like pencil, as the article narrates, millions of people have to cooperate—people in different continents, speaking different languages, practicing different religions, who may not like, or may even hate each other if they were to meet face to face. The spontaneous order of the market—based on price signals and the profit motive—creates this cooperation. Most focus on the competitive nature of the market but completely overlook the cooperative nature. A producer of pencils competes with other producers of pencils but to do so she must cooperate with all the other participants in the market. The competition is among a few, the cooperation is among many.

Walter Williams' every-day-life examples lucidly bring out ethical as well as efficiency arguments for free markets. Israel Kirzner and Murray Rothbard, in their respective deliberative and didactic style, take up all conceivable ethical and cultural objections to the voluntary exchange of the market.

Amartya Sen's discourse on the exchange that extends beyond national boundaries deals with the recent concerns about globalisation. "The central issue of contention is not globalisation itself, nor is it the use of the market as an institution, but the inequity in the overall balance of institutional arrangements — which produces very unequal sharing of the benefits of globalisation… Globalisation deserves a reasoned defence, but it also needs reform" (p. 117).

India's experience in the move towards markets since 1991, where the rich have become richer and the poor have become only slightly less poorer raises concerns about the equity of growth or liberalisation. The rich however have not become richer by taking

3. Leland B Yeager provides a more comprehensive understanding of social cooperation as the penultimate criterion of morality in *Ethics as Social Science: The Moral Philosophy of Social Cooperation* (Edward Elgar, 2001).

from the poor. The growth of the rich has not been a hurdle in any sense to the growth of the poor. They have become richer because the areas in which they earn their living—the formal industrial sector of the economy—have been liberalised. The license-permit-quota raj in industry has been abolished. However the vocations in which the poor earn their living—the entry-level professions in urban areas and agriculture in the rural areas—have hardly seen any liberalisation. Sen's concern for equitable distribution of benefits of globalisation would be more effectively addressed by granting more freedom to the vocations of the poor than by curbing the freedom of the upper class. What the poor need most urgently is the expansion of their economic freedom—a level playing field to earn and enlarge their livelihood.

Sen rightly points out that the movement of capital across nations has become freer, but not that of people. The resource that the North commands—financial capital—is free to seek highest returns globally. The resource that the South has in abundance—human capital—is chained to dirigiste economies. Exacerbating these inequalities is the global arms trade. "The G-8 countries sold 87 per cent of the total supply of arms exported in the entire world. The U.S. share alone has just gone up to almost 50 per cent of the total sales in the world. Furthermore, as much as 68 per cent of the American arms exports went to developing countries" (p. 116). Not only does the South bear the debt burden due to purchases of these arms, but also suffers the worst consequences of their use.

These arms are usually produced by private companies and not by the governments of the North. These governments routinely regulate and prohibit production of many items, but not of arms. This also gives rise to an interesting paradox where their citizens cannot buy a simple gun but their companies can sell missiles and bombers! Of course to the people and governments outside the North.

The trade in arms raises a difficult challenge for the ethics of exchange. This trade, like other exchanges, may meet the legal criterion of being voluntary but any cursory knowledge of geo-politics generates serious doubts about their genuine voluntariness. Can we treat trade among governments and between governments and private businesses as categorically different from trade among individuals and their varied associations?

The Immorality of State Intervention

Section C has four articles. James Dorn of the Cato Institute gives example after example to illustrate an eye-opening parallel between the *Rise of Government and the Decline of Morality*. Though the examples are mostly from the United States, their family resemblance to India is unmistakable. The dependency (on government) syndrome, preferential treatment of ethnic and caste groups, state's usurpation of the proper functions of the market and civil society leading to the breakdown of the social and moral fabric of society are all common experiences. These are the reasons "Why the Worst Get on Top", as F.A. Hayek wrote in his revolutionary book *Road to Serfdom*, the 60th anniversary of which is being celebrated this year in March.

Tibor Machan calls government regulations petty tyrannies since they are a prior restraint on activities of free individuals. They are imposed without any proof of harm, simply on the basis of a potential for harm. He asks: Does this not go against the basic presumption of the rule of law—innocent until proven guilty?

Paul Cleveland and Jeff Tucker demonstrate that business subsidies and antitrust laws (competition and monopoly laws) are not only inefficient but also immoral. These two chapters together point to the schizophrenia of governments—the internal contradiction of 'helping' the business with subsidies and of 'regulating' it through antitrust laws. If the businesses were not given artificial and arbitrary help, we probably won't need any laws to control their growth in a truly competitive environment.

Religion and Markets

The four chapters in this last section assess the view of three major religions, namely Hinduism, Islam, and Christianity, on free enterprise, freedom, and the profit motive. As with any large body of thought, there is no clear answer. It is a matter of degree, how much the religion is antagonistic to material wealth, consumption, and profits. Each religion has numerous strands of interpretation. The chosen chapters provide, if only for a change, an interpretation that finds these religions primarily supportive of markets.

For Hinduism which has no defining text, I can point to the fact that during the new year celebrations, one of the most important religious rituals is the worship of goddess Laxmi (wealth or *dhan*). Merchants do *puja* of their books of accounts and pray to the goddess for more bountiful profits in the new year. At the entrance of business premises, they write *Shubh Labh* (profit is auspicious). Moreover, the basic objectives of a Hindu's life are identified as a*rth* (wealth), *kaam* (sex), and *moksha* (salvation or nirvana). In this list of life's goals, *arth* comes before *moksha*, making it harder to argue that Hinduism is against material wealth or profits.

In conclusion, the book overwhelmingly supports the fundamental morality of markets and the general immorality of government interventions in capitalist acts among consenting adults. The notion that private property and market exchanges are inherently unjust cannot be maintained. As Hayek has argued capitalism is what emerges spontaneously when people are left alone. It is socialism— abolition of private property and market exchange—that has always needed to be imposed on people, even when it was done in the name of people.

The basic institutions of the market are just but whether the actual working of the market would result in just outcomes depends primarily on two issues: one, the effectiveness and efficiency of definition and enforcement of property rights and of dispute redressal machinery in the society; and two, the preferences, choices, and values of the people operating in the market. The rule of law, independent judiciary, limited government, and individual rights are some of the principles through which we address the first issue. The second issue of preferences and values depends largely on social customs and norms and personal ethics.

When we say markets will do such and such, we actually mean that people will do such and such—people operating in the market or interacting within a framework of rules that form the market. The market is not an entity that exists apart from people. The charge that the market is immoral actually means that the people in the market are acting immorally. If the people are moral, then markets are too. Racism, sexism, violence, pornography are result of choices and actions of people. Markets simply reflect those choices and actions.

The major religions or conventional ethics do not offer a clear judgement on the morality of markets. In the increasingly secular age, commandments of religions are less and less likely to have import on individuals' choice of the moral code and its practice. A more comprehensive knowledge and understanding of the consequences of one's actions through rational analysis and experience is most likely to help articulate a moral code.[4] Its consistent and complete practice will lead to reconciliation of self-interest with social interest.

The nature and consequence of voluntary exchange can provide secular foundation for ethics. The morality of voluntary exchange will help build personal ethics that can guide us in all endeavours of our life. As the morality based on religion meets the demands of modernity less and less, the search for and debate about secular foundations of morality will acquire more and more urgency. I hope that the papers in this volume will provide some fresh and fruitful leads to the reader.

4. Ayn Rand in her *The Virtue of Selfishness* provides a moral code based on reality and reason. She however uses the word 'selfishness' for which rational self-interest is commonly used, at least amongst economists