

Jürgen von Hagen
Michael Welker
John Witte
Stephen Pickard
(Eds.)

THE IMPACT of the MARKET

on Character Formation, Ethical Education,
and the Communication of Values
in Late Modern Pluralistic Societies



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Jürgen von Hagen, Michael Welker, John Witte Jr., Stephen Pickard

PREFACE TO THE SERIES

CHARACTER FORMATION AND ETHICAL EDUCATION IN LATE MODERN PLURALISTIC SOCIETIES

An Interdisciplinary and International Research Project

Five hundred years ago, Protestant reformer Martin Luther argued that “three estates” (*drei Stände*) lie at the foundation of a just and orderly society—marital families, religious communities, and political authorities. Parents in the home; pastors in the church; magistrates in the state—these, said Luther, are the three authorities whom God appointed to represent divine justice and mercy in the world, to protect peace and liberty in earthly life. Household, church, and state—these are the three institutional pillars on which to build social systems of education and schooling, charity and social welfare, economy and architecture, art and publication. Family, faith, and freedom—these are the three things that people will die for.

In the half millennium since Luther, historians have uncovered various classical and Christian antecedents to these early Protestant views. And numerous later theorists have propounded all manner of variations and applications of this three-estates theory, many increasingly abstracted from Luther’s overtly Christian worldview. Early modern covenant theologians, both Christian and Jewish, described the marital, confessional, and political covenants that God calls human beings to form, each directed to interrelated personal and public ends. Social-contract theorists differentiated the three contracts that humans enter as they move from the state of nature to an organized society protective of their natural rights—the marital contract of husband and wife; the government contract of rulers and citizens; and, for some, the religious contracts of preachers and parishioners. Early anthropologists posited three stages of development of civilization—from family-based tribes and clans, to priest-run theocracies, to fully organized states that embraced all three institutions. Sociologists distinguished three main forms of authority in an organized community: “traditional” authority that begins in the home, “charismatic” authority that is exemplified in the church, and “legal” authority that is rooted in the state. Legal historians outlined three stages of development of legal norms—from the habits and rules of the family, to the customs and canons of religion, to the statutes and codes of the state.

Already a century ago, however, scholars in different fields began to flatten out this hierarchical theory of social institutions and to emphasize the foundational role of other social institutions alongside the family, church, and state in shaping private and public life and character. Sociologists like Max Weber and Talcott Parsons emphasized the shaping powers of “technical rationality” exemplified especially in new industry, scientific education, and market economies. Legal scholars like Otto von Gierke and F.W. Maitland emphasized the critical roles of non-state legal associations (*Genossenschaften*) in maintaining a just social, political, and legal order historically and today. Catholic subsidiarity theories of Popes Leo XIII and Pius XI emphasized the essential task of mediating social units between the individual and the state to cater the full range of needs, interests, rights, and duties of individuals. Protestant theories of sphere sovereignty, inspired by Abraham Kuyper, argued that not only churches, states, and families but also the social spheres of art, labor, education, economics, agriculture, recreation, and more should enjoy a level of independence from others, especially an overreaching church or state. Various theories of social or structural pluralism, civil society, voluntary associations, the independent sector, multiculturalism, multinormativity, and other such labels have now come to the fore in the ensuing decades—both liberal and conservative, religious and secular, and featuring all manner of methods and logics.

Pluralism of all sorts is now a commonplace of late modern societies. At minimum, this means a multitude of free and equal individuals and a multitude of groups and institutions, each with very different political, moral, religious, and professional interests and orientations. It includes the sundry associations, interest groups, parties, lobbies, and social movements that often rapidly flourish and fade around a common cause, especially when aided by modern technology and various social media. Some see in this texture of plurality an enormous potential for colorful and creative development and a robust expression of human and cultural freedom. Others see a chaotic individualism and radical relativism, which endangers normative education, moral character formation, and effective cultivation of enduring values or virtues.

Pluralism viewed as vague plurality, however, focuses on only one aspect of late modern societies—the equality of individuals, and their almost unlimited freedom to participate peaceably at any time as a respected voice in the moral reasoning and civil interactions of a society. But this view does not adequately recognize that, beneath the shifting cacophony of social forms and norms that constitute modernity, pluralistic societies have heavy normative codes that shape their individual and collective values and morals, preferences and prejudices.

The sources of much of this normative coding and moral education in late modern pluralistic societies are the deep and powerful social systems that are the pillars of every advanced culture. The most powerful and pervasive of these are the social systems of law, religion, politics, science/academy, market, media, fam-

ily, education, medicine, and national defense. The actual empirical forms of each of these powerful social systems can and do vary greatly, even in the relatively homogeneous societies of the late modern West. But these deeper social systems in one form or another are structurally essential and often normatively decisive in individual and communal lives.

Every advanced society has a comprehensive legal system of justice and order, religious systems of ritual and doctrine, a family system of procreation and love, an economic system of trade and value, a media system of communication and dissemination of news and information, and an educational system of preservation, application, and creation of knowledge and scientific advance. Many advanced societies also have massive systems of science, technology, health care, and national defense with vast influence over and through all of these other social systems. These pervasive social systems lie at the foundation of modern advanced societies, and they anchor the vast pluralities of associations and social interactions that might happen to exist at any given time.

Each of these social systems has internal value systems, institutionalized rationalities, and normative expectations that together help to shape each individual's morality and character. Each of these social spheres, moreover, has its own professionals and experts who shape and implement its internal structures and processes. The normative network created by these social spheres is often harder to grasp today, since late modern pluralistic societies usually do not bring these different value systems to light under the dominance of just one organization, institution, and power. And this normative network has also become more shifting and fragile, especially since traditional social systems like religion and the family have eroded in their durability and power, and other social systems like science, the market, healthcare, defense, and the media have become more powerful.

The aim of this project on "Character Formation and Moral Education in Late Modern Pluralistic Societies" is to identify the realities and potentials of these core social systems to provide moral orientation and character formation in our day. What can and should these social spheres, separately and together, do in shaping the moral character of late modern individuals who, by nature, culture, and constitutional norms, are free and equal in dignity and rights? What are and should be the core educational functions and moral responsibilities of each of these social spheres? How can we better understand and better influence the complex interactions among individualism, the normative binding powers of these social systems, and the creativity of civil groups and institutions? How can we map and measure the different hierarchies of values that govern each of these social systems, and that are also interwoven and interconnected in various ways in shaping late modern understandings of the common good? How do we negotiate the boundaries and conflicts between and among these social systems when one encroaches on the other, or imposes its values and rationalities on individuals at the cost of the other social spheres or of the common good? What and where are

the intrinsic strengths of each social sphere that should be made more overt in character formation, public education, and the shaping of minds and mentalities?

These are some of the guiding questions at work in this project and in this volume. Our project aims to provide a systematic account of the role of these powerful normative codes operating in the social spheres of law, religion, the family, the market, the media, science and technology, the academy, health care, and defense in the late modern liberal West. Our focus is on selected examples and case studies drawn from Western Europe, North America, South Africa, and Australia, which together provide just enough diversity to test out broader theories of character formation and moral education. Our scholars are drawn from across the academy, with representative voices from the humanities, social sciences, and natural sciences as well as the professions of theology, law, business, medicine, and more. While most of our scholars come from the Protestant and Catholic worlds, our endeavor is to offer comparative insights that will help scholars from any profession or confession. While our laboratory is principally Western liberal societies, the modern forces of globalization will soon make these issues of moral character formation a concern for every culture and region of the world—given the power of global social media, entertainment, and sports; the pervasiveness of global finance, business, trade, and law; and the perennial global worries over food, health care, environmental degradation, and natural disasters.

In this volume, we focus in on the role of the economic market in shaping character development, ethical education, and the communication of values in late modern pluralistic societies.

Michael Welker, University of Heidelberg

John Witte Jr., Emory University

Jürgen von Hagen, University of Bonn

Stephen Pickard, Charles Sturt University

INTRODUCTION

Jürgen von Hagen

The chapters in this volume focus on the role of “the market” as a key subsystem of modern societies. The authors understand the market as an economic mechanism for the exchange of goods and services in societies with a very large degree of division of labor and, more generally, as a term representing a society largely shaped and driven by commerce and private economic interests. The authors show that the role of the market in shaping the human character, ethical education, and the communication of values in late modern pluralistic societies is not a one-way street. The market shapes human character, ethical education, and the communication of values, while, at the same time, human character, ethical education, and the communication of values shape markets and their performance. The chapters in this volume explore this dialectical relationship.

We have grouped the contributions to this volume into four parts. Part one deals with general and conceptual relationships among markets, character formation, and values. Part two brings pertinent biblical considerations into the debate. Part three discusses some contemporary aspects of our topic. Finally, part four reports on some ways that markets, character formation, and values interact.

In the opening chapter, “Markets and the Human Character,” *Jürgen von Hagen* provides a brief introduction to the economics of markets. Markets provide opportunities not only for voluntary exchange of goods and services generating welfare benefits for the participants, but also for fraud and deceit. Markets are embedded in legal and regulatory environments that determine the quality of economic results. The chapter goes on to present two contrary positions regarding the impact of markets on character formation. The “doux commerce” hypothesis, which goes back to the seventeenth century, claims that markets promote virtues like prudence, honesty, and care for others. The “markets-make-villains” hypothesis, which has been popular since the nineteenth century, argues the opposite, namely, that markets promote vices like greed, deception, and selfishness. The subsequent chapters frequently come back to contrasting these two positions.

Frank J. Lechner (“Commercial Society and Its Values: The Merits of the Market in Social Theory”) continues the discussion by noting that modern societies

exhibit significant moral divisions. Such divisions might be overcome when people from different moral positions participate in common practices that unite them. Lechner discusses the potential merits of the market in this regard. While the market does promote certain virtues, Lechner concludes that its unifying potential is limited, because the relevant moral disagreements often concern the nature and purposes of market activities themselves.

Ginny Seung Choi and *Virgil Henry Storr* (“Growing up in the Market: The Character Traits That Markets Reward and Punish”) explore the question of what kind of character traits markets teach. They review empirical evidence from cross-national studies along a number of moral dimensions: selfishness versus selflessness, honesty versus dishonesty, loyalty versus disloyalty. Overall, they find that market economies tend to perform better in fostering positive traits than nonmarket economies do. This does not, of course, exclude the existence of morally bad persons in market economies, nor does it prove that markets have a positive influence on the human character. But it does suggest at least that markets do not promote morally inferior behavior in societies.

“How Market Society Affects Character,” by *Jason Brennan*, complements this discussion by bringing in additional evidence. Brennan reviews some famous case studies of the question whether markets promote selfishness, and he reports microeconomic evidence concerning the effect of markets on the levels of trust, tolerance, and honesty in societies. This evidence also leads to the conclusion that markets do not corrupt morals. Why, then, do so many philosophers and others hold the opposite view? Brennan suggests two answers: first, that empirical evidence does not much impress the philosophers and, second, that they grossly misunderstand the economist’s rhetoric of utility as saying that monetary values are all that counts in market societies.

The final chapter in this section, “Understanding the Economic Impacts on Virtue and the Pursuit of Good,” by *Paul Oslington*, begins by noting that the rise of the market economy in modern societies has been accompanied by a rise of economic thought in modern culture. The core of economic thought is the concept of rational and maximizing behavior. It has replaced the concepts of virtue and the pursuit of general goods that are worthy of attainment in themselves and cannot be traded off against each other. As a result, virtue and general goods have lost their former power in guiding individual and societal behavior. Oslington proposes a natural-law approach to economics as an alternative. Yet he remains skeptical of the potential of such an approach, so long as it remains unclear how to cast it in the kind of formal model structures that economists are used to working with.

Part two begins with “Law, Economy, and Charity: Formations in Torah and Talmud,” by *Michael J. Broyde*. He studies how the Torah laws of charity have evolved in Jewish communities over time. He shows how the understanding of charity-giving as an obligation to help the poor gradually changed into an obliga-

tion to support the general good of modern Jewish society with its many different institutions. This movement away from charity as supporting the poor has been facilitated by the development of the modern welfare state in Western countries. Contrary to what one might expect, government-provided care for the poor has not crowded out private charity altogether.

Jürgen von Hagen (“Old Testament Principles of Economic Ethics”) explains how the two fundamental principles of economic ethics found in the Old Testament—stewardship and charity—relate to four basic economic issues, namely, work, property, exchange, and solidarity. Human beings are obliged by the economic order of creation to live and work as stewards of their divine creator and to pursue the well-being of other human beings. These two fundamental principles are reflected in the Torah’s laws concerning human work, private property, the exchange of goods, and the performance of acts of solidarity. Living according to Old Testament Law requires freedom. Von Hagen concludes that a market economy can provide that freedom better than systems of central planning.

In “Economic Conditions Impacting Luke’s Concept of Economic Solidarity,” *Kaja Wieczorek* argues that the Gospel of Luke, with its many economic motifs, can be interpreted as a critique of the economic and social realities of the first-century Roman Empire. Wieczorek shows how Luke seems to take up some of these motifs from contemporary Roman literature to unmask it as economic propaganda. Some of Luke’s parables criticize the dire economic situation that the poor and dependent classes of the empire found themselves in. Luke calls on Christians to make the world one of greater solidarity founded on the hope that God will act to make his kingdom come.

Peter Lampe continues this discussion in “Christian-Apocalyptic Protest from the First-Century 90 s as a Reaction to Economic Conditions.” He proposes a reading of the book of Revelation as a protest against the barbarous political and economic conditions of the lower classes of the Roman Empire. Characteristically, Revelation is not a book of hope but a call for patient suffering and upholding of Christian identity in the face of hardship and persecution.

The next two chapters study the relationship between the emerging market economy and religious and moral thinking in medieval and early modern Europe. *Samuel Gregg*, in “Commerce, Finance, and Morality in the Thought of Early Modern Catholic Scholastics,” traces the development of some key economic concepts in the scholastic writings from St. Thomas Aquinas to the second half of the sixteenth century. These writings were a response to the emergence of far-ranging trade relations and markets for capital and credit and the concomitant moral concerns of what it meant to be righteous in this new environment in view of the ethical demands of the Bible discussed in chapter 7. Gregg shows how the discussion of moral issues led to the discovery of important insights into the economics of capital and financial markets.

In “*Oikos and Oikonomia: The Early Modern Family as a Matrix of Modern Economics*,” *John Witte Jr.* studies the interaction between the economy and the family in shaping moral character as reflected in the early household manuals of the sixteenth and early seventeenth centuries. These manuals idealize the Protestant household as a family church, business, and school. They teach the moral values of industry, discipline, frugality, and mutual care which Max Weber later identified as the “spirit of capitalism.”

Part three begins with two chapters that reflect on the power of information and communications technologies (ICT) and their markets to shape human character. In “Pushing New Frontiers—The (Im)Possibility of Character Formation Through ICT Products and Services,” *Katrin Gülден Le Maire* argues for the need to study the impact of these new technologies on character formation. Studies have shown that their use has significant effects on brain formation and structures, especially in children and young adults. As ICT continues to spread though all parts of society, this could change societal perceptions of morals and values.

William Schweiker discusses the implications of one particular feature of the ICT economy—the way human attention has become a valuable economic commodity in “Can Character Formation Survive the Digital Economy?.” He fears that ICT causes people to lose sight of their own moral values to the point of losing their souls for the benefit of increased economic wealth. Educating conscience and an understanding of individual responsibility might be an appropriate antidote.

Stephen Pickard (“Rational Choice Theory and Virtuous Economics? Problems and Possibilities”) returns to Paul Oslington’s theme, that is, the relationship between moral thinking and economic rationality as exemplified by the (in)famous *homo oeconomicus*. Pickard argues that there is an appropriate and legitimate place for economic activities such as trade, distribution, and consumption of goods within the economy of God. However, economic activities and rationality must not be separated from other spheres and practices of society. Through the Eucharist, the church can display what a renewed economic logic might look like.

“A Conceptual Analysis of ‘Value’ in Select Business Literature and Its Implications for Ethical Education” is devoted to a discussion of value concepts in contemporary business. *Piet Naudé* presents four current views of what value means in business: shareholder value (Milton Friedman), shared value (Michael Porter and Mark Kramer), strategic stakeholder value (Edward Freeman), and collective value (Thomas Donaldson and James Walsh). Going from the first to the last is a move from a very narrow understanding of the value of a business as the financial return to its owners to a comprehensive economic and moral valuation of all those who participate in its activities. In this move, financial returns gradually lose importance while intrinsic values gradually gain. Moral education of business managers becomes more important along the way.

Part four begins with a speech by *Manfred Lautenschläger* to the participants of the October 2018 consultation at Heidelberg that formed the basis of this volume. In “Economics, Character, and Values: Vital Questions in Society,” Lautenschläger gives an account of his own experiences with the ethical side of business and the economy and calls for continued interdisciplinary research into the intersection of theology, economics, and moral philosophy.

In “Nice Words Are Fine, but Hens Lay Eggs: Communication about Values Leads to Expectations of Practical Consequences,” *Klaus M. Leisinger* reflects on his experience in consulting with businesses about the communication of values, which has become quite fashionable recently. Leisinger argues that it is possible to base successful management on moral values, but it is dangerous when actions do not follow pronouncements. Value-based management is difficult, because it requires a redefinition of what a business organization regards as normal behavior. Such management is, therefore, a long-term project that needs careful planning and perseverance to succeed.

Michael Welker (“Entrepreneurs’ Ethics in South East Asia: Some Insights from Expert Interviews”) presents summaries of interviews with business owners and managers focusing on the relationship between their religious beliefs and their business practices. The interviewees come from different religious backgrounds—Daoist, Confucian, Buddhist, and Christian. Despite these differences, the interviews reveal two commonalities, namely, that religious beliefs impact how these individuals interpret their role and place in business, but that these beliefs do not take preeminence over core business principles.

Altogether, the contributions to this volume span a large range of topics and issues. The authors have benefitted greatly from the discursive culture of the venerable University of Heidelberg, and we hope that this volume will stimulate further fruitful debate of and research into the interrelationship among the spheres of the market, human character formation, and thinking about values and virtues.

PART ONE:
SYSTEMATIC CONTRIBUTIONS

MARKETS AND THE HUMAN CHARACTER

Jürgen von Hagen

Modern societies are market societies. *The market* is the predominant economic institution and has pervaded all spheres of life. If institutions generally shape the human character, it is obvious that the market does. This chapter begins with a general discussion of the nature and functioning of markets.

MARKETS

The market is a place where people exchange goods and services in commodity mode. The word “market” reminds us of places such as the village square or the central square of a city, where farmers and artisans of all kinds offer their products for sale with the purpose of buying the products of other farmers and artisans later on. While this was the predominant form of the market in times past, it has long since ceased to be the case. Some markets still exist physically and geographically, while others are purely fictitious and exist only virtually. They may still have physical manifestations, such as the delivery of the goods bought and the making of payments, but the market in its entirety is an abstraction which exists only in the minds of those who speak about it, feel constrained by it, design policies to influence it, and do research trying to understand it. For example, we can visit websites where we purchase the right to listen to music online and pay for that online. There is a market for such services, but it has no physical manifestation. We may also buy books online, pay for them online, and have the books delivered to our homes. The delivery of the book then is the only material manifestation of the online book market. The US stock market and other global financial markets today extend beyond the trading floors of exchange buildings and are essentially online trading platforms where financial claims and liabilities are traded that never take physical form.

The essence of a market is the interaction between potential buyers and sellers of the objects traded—commodities for commodities or commodities for money. The extent of the market is the scope of the interaction between potential buy-

ers and sellers. It is limited by the cost of transportation of the objects traded and the cost of communication among the potential buyers and sellers, including the effects of national borders, differences in tax systems, customs regulations, and differences in product regulations.

Potential buyers and sellers in a market engage in *voluntary exchange*. The word “voluntary” has two aspects here. First, no market participant is obliged to buy or sell a commodity at a certain price unless he desires to do so. This has important consequences for interpreting what is going on in a market. If we observe two or more individuals voluntarily exchanging goods (or goods for money), each one must be better off as a result: the seller, since he would not accept the exchange if what he receives was of inferior value in his own eyes than what he gives; the buyer, since he would not give what he pays if what he receives was not of superior value to him. Voluntary exchange entails what economists call a Pareto improvement: no party to the exchange can be worse off, and at least one party must be better off as a result of the exchange. The proof is simple: an individual who would be worse off would just withdraw from trading.

Voluntary exchange involves a certain kind of reciprocity: one partner of the exchange achieves a welfare gain from the exchange by making another realize a welfare gain as well.¹ Thus, voluntary exchange is necessarily a positive-sum game, a notion developed and emphasized by the sixteenth-century French political philosopher Jean Bodin and the seventeenth-century French lawmaker Pierre de Boisguilbert.² Note that the principle of voluntary exchange says nothing about the distribution of the welfare gains between the two individuals. One may gain very little, the other very much. Still, to say that an exchange between two individuals leaves one worse off is the same as saying that that individual did not trade voluntarily, and that where the exchange took place was not a market.

More generally, then, every market trade generates a surplus of economic welfare to be shared among the participants. The price paid by the buyer determines how much of the surplus he receives and how much goes to the seller. The question then is, at what price will the buyer and the seller agree to trade? There is no general answer to that question. Much of it depends on how the exchange between the two individuals is organized. If the two bargain over the price, the result depends on their relative bargaining power. The more power one individual has, the larger the welfare gain he can secure for himself. This is where competition comes into play: the more competition there is among traders, the less power each

¹ Wilhelm Röpke, in *The Moral Foundation and the Impact of Keynesianism* (New York: National Association of Manufacturers, 1963), called voluntary exchange the “method of solidarity” to alleviate economic scarcity.

² On Bodin, see Henri Baudrillart, *J. Bodin et son temps* (Paris: Librairie de Guillaumins et Cie., 1853), 176 ff.; on de Boisguilbert, see Félix Cadet, *Pierre de Boisguilbert: Précurseur des Economistes* (Paris: Institut Coppet, 2014), 167 ff.

individual has to determine the terms of trade in his favor, and the more equitable will be the outcome.³ It is on these grounds that the medieval scholastics, among them Thomas Aquinas, argued that the just—that is, morally justified—price of a commodity would be the one that can be obtained in a competitive market.⁴ Martin Luther later agreed with them.⁵ Competition requires transparency, in the sense that the participants on both sides of the market know what market conditions prevail, what is the going market price, and what kind of exchanges are possible.

The view of market exchange as a positive-sum game stands in stark contrast to another tradition, one that holds that one man's gain from trade can be realized only by another man's loss and that, therefore, market exchange is necessarily a zero-sum game. Félix Cadet traces the history of this idea to Francis Bacon and Michel de Montaigne.⁶ According to this view, a nation's government should strictly regulate and even suppress trade with other nations to assure that the nation suffers no losses. Economic policies from Colbert's mercantilism to modern forms of protectionism have rested on the notion of trade as a zero-sum game pitting nations against each other as rivals. The positive-sum view, in contrast, regards trade between nations as promoting international solidarity and peace.⁷ Even today, Donald Trump's call to "make America great again" rests on the zero-sum-game view, while the awarding of the Nobel Peace Prize to the European Union in 2012 is impregnated with the positive-sum-game view.

The second aspect of voluntary trade is that every trader in a market has a choice of whom to trade with. An individual buyer is not obliged to buy from a certain seller. He can search for better opportunities. Similarly, an individual seller is not obliged to accept the price offered by a certain buyer. He can search for

³ There is a long tradition of discussing what is a "fair" price, reaching all the way from Aristotle through Roman law to the scholastics (including Thomas Aquinas) and Martin Luther to today's "fair-trade" movement. We will not enter into this debate here.

⁴ See Odd Langholm, *The Legacy of Scholasticism for Economic Thought* (Cambridge: Cambridge University Press, 1998) for an extensive survey of the scholastic debate on commerce, prices, and markets.

⁵ See Martin Luther, "Von der Kaufshandlung und Wucher," 1524.

⁶ Cadet, *Pierre de Boisguilbert*. For Francis Bacon, see *Essays or Councils Civil and Moral with Introduction and Illustrations by Samuel Harvey Reynolds* (Oxford: Clarendon Press, 1890), Essay 15, 99, available at www.archive.org. For Montaigne, see "Le Profit de l'Un est Dommage de l'Autre," in *Les Essais de Michel de Montaigne* (Paris: Michel Sonnius, 1595), Book 1, 53 ff.

⁷ This had been argued already by Jean Bodin and Pierre de Boisguilbert and, almost a century later, by Immanuel Kant, *Zum ewigen Frieden: Ein philosophischer Entwurf*, 1st ed. (Königsberg: F. Nicolovius, 1795), available at: <https://archive.org/details/zumewigenfrieden00kant>.

another buyer offering a better price. Market exchange, therefore, stands in contrast to economic transactions within closely knit communities like the family, the clan, the village, the church, or the tribe, where customs and hierarchies determine who can make exchanges with whom, and at what terms. While such exchanges involve lasting and stable personal relationships, market exchanges typically do not. In fact, many market exchanges are anonymous, in the sense that the buyer does not know the seller and vice versa, and the two interact through the veil of a trading business or platform. The mark of the market is that potential buyers and sellers interact for no other purpose than to buy and sell. From the point of view of a buyer, all sellers are equivalent as long as they sell the same commodity at the same price. Similarly, from the point of view of the seller, all buyers are equivalent, as long as they buy their commodity at the same price. Market exchange is characterized by cold, impersonal relationships among the participants, in which each participant seeks only his own advantage.

Market transactions are contracts between buyers and sellers. Market exchange requires that all potential exchange partners regard and accept each other as autonomous individuals, that is, individuals who are able to enter into such contracts, understand and agree on the terms, and fulfill them. Private property is, therefore, a prerequisite of market; where property rights do not exist or are not properly defined and enforced, markets will not function.⁸

Every market has a set of rules governing the contracts market participants enter into. These rules are defined by the legal system of the economy. “Free” markets, in the sense of a total absence of legal rules, cannot exist. Aristotle argued in the *Politics* that the principal office in a state is the office that watches over the market and the contracts concluded in market exchanges.⁹ Not all possible contracts and transactions are in the interest of society, and therefore the government must ensure that those that are not, are illegal and invalid. Moreover, since the very notion of a market presupposes that contracts are enforceable, a market system can function only when the government provides legal security. Adam Smith

⁸ Fyodor Dostoevsky reports that, in the Siberian prison where he was being held, the buying and selling of things including vodka and, hence, the existence of any markets was suppressed by the guards on the argument that prisoners were not allowed to have private property. The purpose was to deprive the prisoners of their human qualities and turn them into brutes. See Dostoevsky, *Notes from a Dead House* (New York: Alfred E. Knopf, 2015), kindle edition pos. 489.

⁹ Aristotle, *Politics*, translated by Benjamin Howitt (Oxford: Clarendon, 1808), book 6, section 8, 251–52. The text reads: “First among the necessary offices is that which has the care of the market; a magistrate should be appointed to inspect contracts and maintain order. For in every state there must inevitably be buyers and sellers who will supply one another’s wants; this is the readiest way to make a state self-sufficing and so fulfill the purpose for which men came together into one state.”

emphasized the importance of a well-functioning legal system for a market economy:

That security which the laws in Great Britain give to every man that he shall enjoy the fruits of his own labour is alone sufficient to make any country flourish, notwithstanding these and twenty other absurd regulations of commerce; and this security was perfected by the revolution much about the same time that the bounty was established. The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security is so powerful a principle that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security.¹⁰

Laws and government regulations thus shape a market and the way it functions and, therefore, the outcomes it produces. Smith was also very aware that competitive markets are likely to be suppressed by the efforts of some market participants to engage in collusion, and that a high degree of competition needs to be protected by the state.¹¹

The mode of exchange in the market is *commodity mode*. That is, the objects bought and sold in a market are characterized by a relation of equivalence. To the buyer, an apple is an apple, a cow is a cow, a worker is a worker, etc.—all worth the same price as any other apple, cow, or worker. This characteristic of market exchange has long been criticized by philosophers as morally despicable. Immanuel Kant argued that any object can have either *dignity* or a *price*.¹² Dignity requires uniqueness. An object with dignity cannot be compared to any other object. If an object has a price, there are other objects equivalent to it. Treating an object as a commodity, therefore, has the moral consequence of depriving it of its dignity.

¹⁰ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Methuen, 1904), online at <https://archive.org/details/AdamSmithAnInquiry>, IV.5.b.43, 540. For a discussion, see Friedrich A. von Hayek, *Die Verfassung der Freiheit* (Tübingen: J. C. B. Mohr, 1983), 75.

¹¹ Smith, *Wealth of Nations*, I.10.c.27, 145: “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.”

¹² Immanuel Kant, *Grundlegung zur Metaphysik der Sitten* (Stuttgart: Reclam, 2008).