

## Ethical Ideas and Consequences

*By Will Simpson*

Morality is a cause and a consequence. Contemporary society demands that ideas and consequences both be ethical, and in the policy realm, what constitutes “ethical” is a hotly contested subject. As Baroness Margaret Thatcher stated, “...the greatest nations are those rooted in a moral core of belief, from which policy and actions subsequently flow.”<sup>1</sup> All legislative fiats from policymakers are indicative of their moral mindset. That mindset could presuppose that state intervention is necessary throughout society to maintain economic stability. This train of thought naturally beliefs people are generally disinclined to wisely determine their well being, and no eclectic natural order forms in the affairs of men. Instead, state regulation and oversight are necessary at every corner.

Alternatively, the policymaker could start, at his very axiom, and believe that individual liberty is preferable to state force and coercion. They could embrace the ideas of free people weighing incentives and using their intellect to create contracts and serve each other with goods and services. Both mindsets struggle to attain the “moral high ground.” But which has a rightful claim?

We often hear of “disadvantaged” low-income citizens who are morally undermined by free markets, but we also know of impoverished and starving families in the totalitarian Soviet Union. Central planning lead to bare supermarket shelves, and the black market of freethinking individuals provided a massive proportion of the nation’s food supply.<sup>2</sup> Which is the exception, and which is the rule?

We’ll examine these questions in light of ethical impact of free markets contrasted with alternative systems, the merits *prima facie* of free systems to the people, and the incentives for ethical behavior created by free societies.

History has seen a number of methods for allocating wealth. These systems generally come from a moral presupposition. They might see the individual as being somewhat autonomous and justly entitled to his liberty. The person then, by seeking his own needs, invests, innovates, and prospers leading to the improvement of society as a whole. Or we might see society as necessitating state-mandated communal prosperity, a village that requires all members act in accordance with civil authority’s good intentions.

Morally and pragmatically, the contrast could not be starker. The latter group of people prefers the collective power to individual liberty. It is a cosmic justice of social equality. The end is justified by the means, and the end is equality of outcome, at any cost. Collectivism declares that the individual is no better than the state. The human spirit is bound to the esoteric “greater good.” Freedom is a subsidiary to stability, and

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<sup>1</sup> Former Prime Minister Margaret Thatcher, endorsement for *Getting America Right*, Crown Forum, 2006

<sup>2</sup> See, e.g., Thomas Sowell, *Basic Economics*, 1997

incentive kneels to planning. States that represent a severe level of this mindset, such as Cuba, Venezuela, or the former Soviet Union, typically don't stop with economics. As we've discussed, economic policy is indicative of a broader moral philosophy. Those who are sympathetic to the supremacy of the state and opposed to economic freedom tend to be less inclined to religious or intellectual freedom either.

The second view of mankind's trading and commerce with their fellow man believes in the individual. This mindset declares that the human spirit is a sacred and precious thing. Every life is unique; a specialized soul can perform far more than a cloned multitude. Free to choose their own path, their own prosperity, their own ambitions, their own idea of a utopia, the truly diverse society relies on economic and political freedom, not central planning, to be the efficient mechanism. The mind and market are encouraged to innovate, prosper, to grow. This type of system is seen to a degree in states such as the United States and Hong Kong.

The human spirit reacts to freedom. Even those who accept state control tend to often see its flaws. Whittaker Chambers, a former Soviet espionage agent, wrote in his memoir:

Socialism was not the answer. It was perfectly clear, too, that if socialism was to stem the crisis and remake the world, socialism involved a violent struggle to get and keep political power. At some point, socialism would have to consolidate power by force.<sup>3</sup>

And that force, regardless of how public, is entirely antithetical to our natural instincts.

If we look a bit closer at a system of individual liberty, what we call free markets, we see that it does indeed incorporate ethical behavior inherently. This lies in its moral idiom—that men, though fundamentally flawed creatures, can reciprocate wealth. If my Uncle Bill needs his car washed, I can serve him in that area of need. If I need \$25 to see a movie, he can also meet that need. Now, a central planning agency could determine that we could reach a compromise if Uncle Bill was taxed \$30, half the money went to me to see a movie, and the other half went to establish a National Department of Automotive Hygienic and Maintenance. He would have to wait a while for his wash, I would only get \$15, but we would both receive something.

Alternatively, I could serve my uncle by washing his car, and in exchange for my labor, he would give me a medium of exchange—something of understood value—\$25. He needed the time to wash his car for other things more than he needed something else of value, and I needed something of value more than I needed thirty minutes of my life. By working out a private contract by mutual consent and communication, I not only established contact and relationship with my uncle, but we also had mutual gain.

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<sup>3</sup> Whittaker Chambers, *Witness*, Page 194, Gateway Press, 1952

Dr. Walter E. Williams from George Mason University explained this well when he stated:

Free markets, characterized by peaceable, voluntary exchange, with respect for property rights and the rule of law, are more moral than any other system of resource allocation.<sup>4</sup>

We also find that pragmatically, empirical evidence has long shown these societies that emphasize the freedom of the individual also find prosperity. We can see a stunning distinction if we compare two countries that a century ago were in the same boat—and now find themselves in entirely different circumstances.

Japan has been one of the fastest growing economies in the world for the past thirty to forty years, and India one of the slowest. After WWII, Japan's heavy Western influence bred many Western ideas and technological advances domestically. India, on the other hand, lived in relative isolation and with a vast plethora of restrictions and licensing agencies for any entrepreneurial activity.

Dr. Paul Romer, an economics professor at Stanford, contrasted these examples thusly:

India's commitment to closing itself off and striving for self-sufficiency has been as strong as Japan's commitment to acquiring foreign ideas and participating fully in world markets. The outcomes—grinding poverty in India and opulence in Japan—could hardly be more disparate... The lesson from the Japanese experience is clear: mundane forms of applied research, such as design work or product and process engineering, can have large cumulative benefits for the firm that undertakes them and even larger benefits for society as a whole. Moreover, the gains from applied research are largest not when it is dictated by government agency priorities or academic interests, but instead when it is closely integrated into the operations of a firm and motivated by the problems and opportunities that the firm faces.<sup>5</sup>

Research, development, innovation, and ultimately growth, can all be achieved most efficiently by the pursuit of individual interests. These are interests without artificial incentives, statutory oversight and dictation, or repudiation. That growth is not incubated by government mandate or planning. Lives are often uplifted or impoverished based on this distinction. And that makes it an inherently ethical one.

Finally, many people criticize free markets for the “amoral” framework in which it operates. Many of the practical workings of the market are morally neutral, and the morality lies in the choice of the individual using the system. Often, those disadvantaged

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<sup>4</sup> Walter E. Williams, “Compassion vs. Reality,” June 2007

<sup>5</sup> Paul M. Romer (Professor of Economics in the Graduate School of Business at Stanford University and a Senior Fellow at the Hoover Institution), “Economic Growth,” The Library of Economics and Liberty

are seen as being abused and oppressed by a system lacking ethical checks. We see this most often in contemporary discourse based on the notion of “income inequality.”

While it is certainly true that some people make more than others, there are a number of variables and factors one needs to take into account. The first is income mobility, or the probability that someone in a low-income bracket will stay there. According to a recent Treasury Department study, the majority of Americans moved to a higher income bracket in the past ten years, including 90.5% of the lowest income level.<sup>6</sup> Two-thirds of people saw real income increases in the past decade,<sup>7</sup> and the “[m]edian real incomes of all taxpayers increased by 24 percent after adjusting for inflation.

Along with this chastisement comes the vilification of the “super rich,” the top 1% of income earners. Yet, 75% of those in the top 1/100 of the top percent of income earners ten years ago were still in that position this year.<sup>8</sup> Many in the top percent of income earners are only there for one year of their life, perhaps they cashed in on some longtime savings held in stock, or sold their property investment, or downsized homes from a valuable home of thirty years to an assisted living facility. These people aren’t always a permanent “class.”<sup>9</sup>

Additionally, complaints about free market’s neglect of the environment abound. One often overlooked aspect of markets, however, is that they respond to consumers. When a cultural stigma arises it influences consumer behavior, thus influencing shopping habits. This is the reason such a large number of companies have “gone green.” And this doesn’t even consider the benefits of a market in weighing various options and innovating to meet the needs of environmental change. While government intervention may sometimes be necessary to correct market externalities, quite often, the ethical behavior inherent in a free society keeps the market in line autonomously.

We see the behavior of free people, and appreciate it as being a just and moral system, not to mention a vastly successful one. Yet many still forgo individual liberty in preference to allowing state control over aspects of life. As Whittaker Chambers stated later in his memoir, “Men have never been so educated, but wisdom, even as an idea, has conspicuously vanished from the world.” Ethical behavior not only has a role in the framework of freedom, it is in its very nature. And it’s because of this wisdom that we must always remember the things that are just, moral, and successful in their ideas and consequence- free markets and free men.

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<sup>6</sup> The Wall Street Journal, “Movin’ On Up,” November 13, 2007

<sup>7</sup> Treasury Department Press Release, “Income Mobility Study,” November 13, 2007

<sup>8</sup> Ibid

<sup>9</sup> “That ‘Top One Percent,’” Thomas Sowell, November 27, 2007