

# The Morality of Markets

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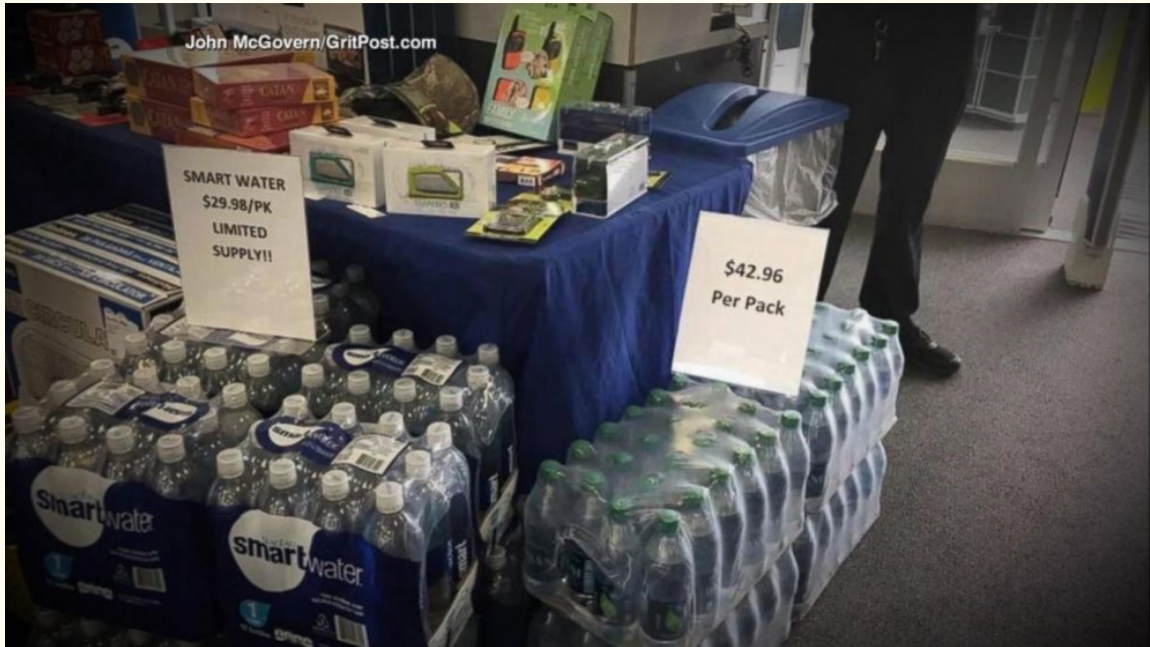
Fernando Arteaga,<sup>1</sup> Jesús Fernández-Villaverde,<sup>1</sup>, Jacob Hall,<sup>1</sup> Ivan Luzardo Luna,<sup>1</sup> and Andrej Svorenčik <sup>1</sup>

April 21, 2024

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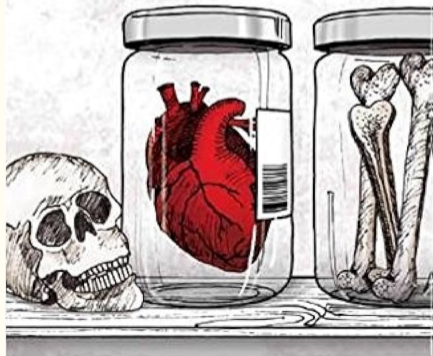


On the Trail of the World's Organ Brokers,  
Bone Thieves, Blood Farmers, and Child Traffickers

# The Red Market

Scott Carney

"A thrilling adventure into the global body business,  
with keen insight into the economics that drive it.  
Scott Carney investigates both our insatiable need for  
replacement human parts and the unscrupulous and often  
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— Chris Anderson, author of *The Long Tail*

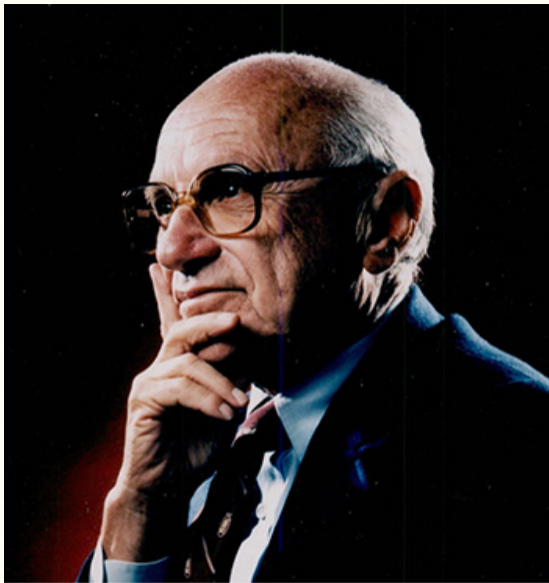


### Barack Obama, Remarks by the President on Raising the Minimum Wage (2014)

“[i]n fact, about three in four Americans support raising the minimum wage [because] we believe that in the wealthiest nation on Earth, nobody who works full-time should ever have to raise a family in poverty.”

### Milton Friedman, What All is Utility (1955)

“Science is science and ethics is ethics; it takes both to make a whole man; but only confusion, misunderstanding and discord can come from not keeping them separate and distinct, from trying to impose the absolutes of ethics on the relatives of science. ”



## Development of economics

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HISTORY  
OF  
ECONOMIC  
ANALYSIS

**JOSEPH A. SCHUMPETER**

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**WITH A NEW INTRODUCTION BY**

MARK PERLMAN



# Development of economics

- Exchange at the core of what Economics studies.
- Price theory: Theories and practices about how societies determine these exchange ratios.
- Prices are broadly understood as terms of trade, ratios of exchange.
  - Fairness assessments at the core of discussions in the Middle Ages.
  - Explain economic activity in terms of creation and transfer of value. How do values transform into prices? Discussions in the 19th century of subjective vs. objective theories.

# Price theory in the medieval world, I

- Normative and positive analyses.
- Debates around the nature of prices and interest; just price and usury.
- Influenced by:
  1. Aristotle (starting the 13th century).
  2. Christian founding fathers.
  3. General atavistic culture.
  4. Roman law.
- Three medieval traditions:
  1. Romanists.
  2. Canonists.
  3. Theologian scholastics.

## Price theory in the medieval world, II

- What were the medieval theories concerning the determination of price?
- What prices were legitimate or ethical?
- Was the theory of the just price, the only, or the most prominent guideline?
- How was the just price estimated?

# ARISTOTLE'S ECONOMIC THOUGHT

SCOTT MEIKLE

CLARENDON  PAPERBACKS

# JUST PRICE IN THE MARKETS

A HISTORY



CHARLES R. GEISST

# The Scholastic Culture of the Middle Ages, 1000 – 1300

John W. Baldwin



## Aristotelian thought

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- Virtuosity is refraining from extremes.
- Justice coextensive with virtue.
- Justice as “Equal things to people equal in status. Unequal things to people of unequal status.”
- Distributive Justice: Superior to inferior relations.
- Commutative Justice: Equal to equal relations.
- Reciprocal Justice: ruling particularities of private exchanges.
  - Division of labor creates exchange opportunities.
  - Requires a “reciprocal” and “fair” exchange of value among parties.

## Exchange in Aristotle

- Want or need is the factor that makes things commensurable.
- Money as the solution to the problem of double coincidence of wants.

### Aristotle, *Nicomachean Ethics*, Chapter 5

“Let A be a builder, B a shoemaker, C a house, D a shoe. The builder, then, must get from the shoemaker the latter’s work, and must himself give him in return his own. If, then, first there is proportionate equality of goods, and then reciprocal action takes place, the result we mention will be effected. If not, the bargain is not equal, and does not hold; for there is nothing to prevent the work of the one being better than that of the other; they must therefore be equated. For it is not two doctors that associate for exchange, but a doctor and a farmer, or in general people who are different and unequal; but these must be equated. This is why all things that are exchanged must be somehow comparable. It is for this end that money has been introduced, and it becomes in a sense an intermediate; for it measures all things, and therefore the excess and the defect – how many shoes are equal to a house or to a given amount of food.”



## **The Church's teachings**

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- If an exchange is reciprocal, how can there be any profit?
- Aristotle's Politics and the art of acquisition:
  1. Profits used to cover necessities are legitimate.
  2. Profits used to amass riches are not virtuous.
- Greek, Roman, and other pagan cultures share a mistrust of the merchant. Atavistic traits.

# Mistrust of merchants by Church fathers

- Christian attitudes derive from ideas from Christ and apostles.
  1. Priority of spiritual aims over material goods.
  2. Large suspicion on the excessive accumulation of earthly goods.

## **Matthew 19:24**

“Again I tell you, it is easier for a camel to go through the eye of a needle than for a rich man to enter the Kingdom of God.”

## **Timothy 6:10**

“The love of money is the root of all evil.”

# Mistrust of merchants by the church

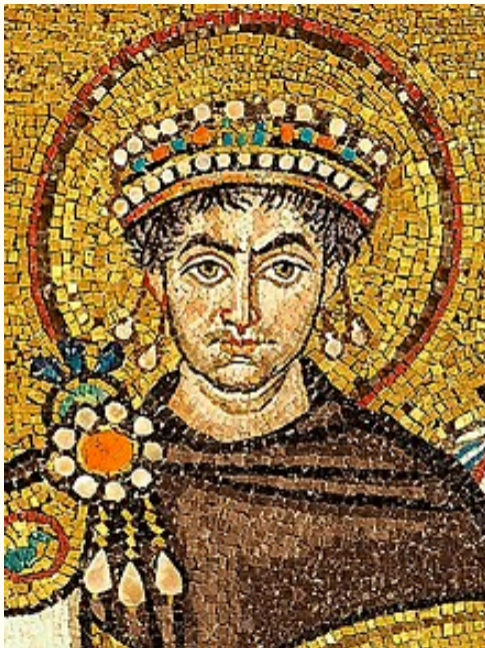
## Pope Leo the Great, 5th Century

“it is difficult for buyers and sellers not to fall into sin.”

- Mistrust in riches, because of the way people obtain them:
  1. “Unquenchable’s greed.”
  2. Profits derive from lies, deception, cheating, and committing fraud.
  3. Merchants possess a lot of power by commanding the necessities of life.
- Generally acknowledged prior to the Gregorian Reforms, the church was hostile to merchants and commercial activity.

## Roman law

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- Justinian's *Corpus iuris civilis* (529-534 AD) at the core.
- Public sphere full of price regulations:
  1. Common grain price regulation since Augustus.
  2. Meat prices regulated by the Prefect of the city.
  3. Diocletian's Edict of Maximum Prices in 301.
- Private sphere emphasized by laissez-faire: Freedom of bargaining.



# Freedom of bargaining, I

## Ulpian, 130 AD

“Pomponius says that it is naturally permitted to parties to circumvent each other in the price of buying and selling.”

## Paul, 225 AD

“In buying and selling natural law permits the one party to buy for less and the other to sell for more than the thing is worth; thus each party is allowed to outwit the other.”

- Other examples:
  - Law of the Twelve Tables, 450 BC.
  - Theodosion Code, 420 AD.

## Freedom of bargaining, II

- *circumvenire se invicem contrahentibus naturaliter licet* ⇒ Right to outwit.
- *res tantum valet quantum vendi potest* ⇒ A good is valuable according to the sale price.
- *in re sua unusquisque es moderator et arbiter* ⇒ Each one is an arbiter of its own.
- *violenti et consentienti non fit iniuria* ⇒ The willing suffer no harm.

# Challenges to freedom of bargaining

- Exceptions:
  - Bargaining with *dolus*. Committing fraud or transactions done by physical extortion.
  - Concept of *Laesio enormis* as the ability to rescind a land contract. “Introduced” in the Justinian Code and attributed to Diocletian.
- Applied to property transactions. Whereas if land was sold below its “value,” the seller may rescind the contract or ask the buyer to pay the difference.
- The “value,” would be a *iustum pretium*, a just price.

## Medieval theories

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## H.J. Berman, *Religious Foundations of Western Law*, 1975

“In law as in theology, the written text as a whole—the body of civil law ( *corpus juris civilis*), as it then came to be called—was accepted as a sacred embodiment of human reason, but the techniques of reconciliation of contradictions gave the medieval jurists considerable freedom to limit or expand the scope of the concepts and rules laid down in the text. ”

- Continuers of Roman Law tradition with a Scholastic approach.
- The default stance on just prices remained that of freedom of bargaining, accompanied by a growing discourse concerning *laesio enormis*. Which now applied to all economic spheres and to buyers and sellers.
- During the 12th century, certain civil law agreements emerged wherein parties mutually agreed that *laesio enormis* could not be invoked.

## Romanists, II

- By what legal mechanism was just price assessed?
- Enforced by *officium iudicium*. A Judge with discretionary powers.
- What criteria did the judge use to estimate the just price?
- *Lectura* of Odofredus (1265):
  - The value of a thing is the price it commonly fetches.
  - The fair price may be found by comparing it with the price of similar things.
  - The value of land may be estimated by comparing the amount of rent generated by other lands.
  - Taking advice from people who live in the locality.
- Just price is the market price as agreed by private parties or enforced by state regulations.
- *laesio enormis* as a legal form to mend errors or fraud in the exchange

## H.J. Berman, *Religious Foundations of Western Law*, 1975

“The techniques of harmonizing contradictions-expressed in the title of the first systematic legal treatise ever produced in the West, Gratian’s Concordance of Discordant Canons, written in about the year 1140-coupled with the belief in an ideal body of law, made it possible to begin to synthesize first canon law (*corpus juris canonici*) and ultimately royal and feudal law as well ”

- Regarding economic matters, attention is drawn to usury concerns. Profit and usury were closely examined as two facets of the same issue. The concept of *turpe lucrum* is elaborated upon.
- Rufinus and Huguccio, in their commentaries on Gratian, provided insights into situations where selling at a higher price was not considered usury.
  1. You sell goods out of necessity.
  2. You add something to the product, either through labor, expenses, and or diligent care.
- Usury occurs when profit is the sole motive and when the enterprise takes advantage of individuals or circumstances, such as through price gouging.



# Scholastic theologians, I

- Scholasticism sought to analyze and understand truths through reason and logic, often using dialectical methods of argumentation.
- In contrast to Romanists and Canonists, scholastic thinkers were primarily scholars driven by a pursuit of knowledge for its own sake rather than focusing on developing a pragmatic system aimed at resolving disputes.
- Economics and the determination of prices are examined within the framework of justice.
- Economic activities are viewed through the lens of commutative justice, with the concept of the just price being a specific aspect of commutative justice.

## Scholastic theologians, II

- Exchanges are categorized based on motives: exchanges driven by necessity and those driven by the desire for profit.
- Profit, even if motivated by profit, is not necessarily condemnable. Merchants offer a public service by supplying goods to others.
- Merchants, even if they don't physically alter the product, provide the essential service of transporting it. Moreover, they undertake risks, which is significant.
- The just price is determined by the price it fetches in voluntary exchanges.

- How to resolve the Aristotelian challenge of determining the appropriate proportion between exchanged goods?
- Albertus Magnus introduced the term “Utilitas” as the subjective standard by which both the seller and buyer individually judge the price to be fair for each of them. However, it is somewhat ambiguous, as considerations of other factors, such as labor and additional expenses, are also maintained as important determinants of prices.

# Scholastic theory of price

- The traditional interpretation by Edmund Schreiber (1913) indicates that Scholasticism favored objective theories of value as the principal standards for establishing the appropriate prices of goods. This laid the foundation for the development of Political Economy in the 18th and 19th centuries.
- Baldwin holds a different view; he thought scholastic scholars agreed that the market price represented the just price. While labor and other input costs were taken into account, the primary determinant was the equivalence of utilities.

## **St. Thomas Aquinas, Summa Theologica, 1274**

“The value of economic goods is that which comes into human use and is measured by a monetary price, for which purpose money was invented.”

## **The morality of market activities**

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- What is the relationship between markets and moral values?
  - Markets are amoral.
  - Markets are immoral.
  - Markets are morally right.

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# DO MARKETS CORRUPT OUR MORALS?

VIRGIL HENRY STORR  
GINNY SEUNG CHOI





# Markets have gone too far

## Michael Sandel, *What Money Can't Buy*, 2012

“The corruption objection points to the degrading effect of market valuation and exchange on certain goods and practices. According to his objection, certain moral and civic goods are diminished or corrupted if bought and sold.”

- What dictates our perception of certain markets as morally obnoxious or repugnant? According to Kinbar (2004):
  1. Extremity of outcomes.
  2. Weakness of agency.
  3. Inequality in market relations.

## Alvin Roth, *Repugnance as a Constraint on Markets*, 2007

“the real repugnance that some people feel toward some transactions means that economists interested in proposing and designing markets must take this repugnance into account.”

## Markets as monsters

- Markets promote or even depend on vices.
- Exploitation and alienation as the driving forces behind market societies.

### **Jean-Jacques Rousseau, Discourse on Inequality, 1755**


“[Commercial Society] makes him devious and artful with some, imperious and hard towards others, and hard towards others, and compels him to treat badly the people he needs if he cannot make them fear him and does not judge in the interest to be of service to them.”

### **Karl Marx, Economic and Philosophic Manuscripts, 1844**

“The worker’s existence is thus brought under the same condition as the existence of every other commodity. The worker has become a commodity, and it is a bit of luck for him if he can find a buyer. And the demand on which the life of the worker depends, depends on the whim of the rich and the capitalists.”



THE  
FABLE  
OF THE  
BEES:  
OR,  
*Private Vices,  
Publick Benefits.*



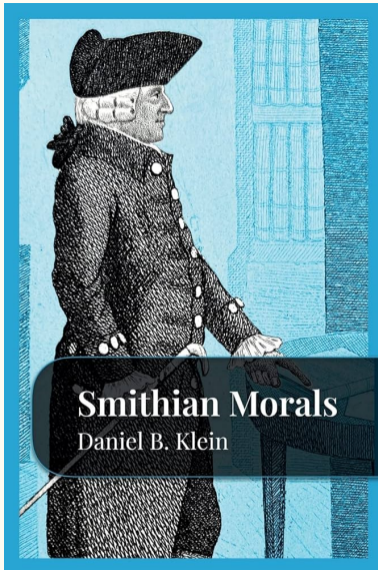
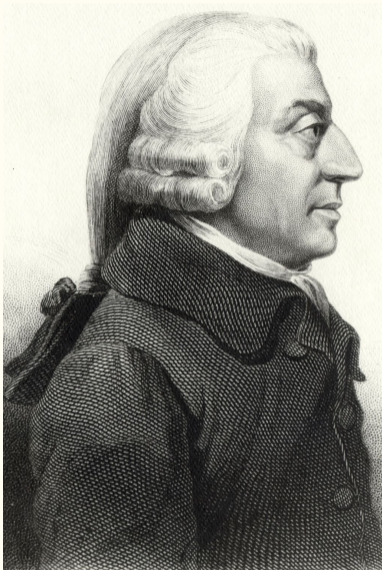
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ford Arms in Warwick Lane, 1714.

## Private vices, public benefits

- The pursuit of individual gain, self-interest, and consumerism drive industry, innovation, and prosperity.
- Markets transform private vices into public benefits.

### Bernard Mandeville, *The Grumbling Hive*, 1705

"Then leave Complaints: Fools only strive To make a Great an Honest Hive T' enjoy the World's Conveniencies, Be fam'd in War, yet live in Ease, Without great Vices, is a vain Eutopia seated in the Brain. Fraud, Luxury and Pride must live, While we the Benefits receive: Hunger's a dreadful Plague, no doubt, Yet who digests or thrives without? Do we not owe the Growth of Wine To the dry shabby crooked Which, while its Shoots neglected stood, Chok'd other Plants, and ran to Wood; But blest us with its noble Fruit, As soon as it was ty'd and cut: So Vice is beneficial found, When it's by Justice lopt and bound; Nay, where the People would be great, As necessary to the State, As Hunger is to make 'em eat. Bare Virtue can't make Nations live In Splendor; they, that would revive A Golden Age, must be as free, For Acorns, as for Honesty."



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# Doux commerce thesis

## Montesquieu, *De l'esprit des lois*, 1748

"Commerce ... polishes and softens barbaric ways as we can see every day."

- Trade promotes stable governance by cultivating the virtues necessary for it: diligence, frugality, hard work, and prudent risk-taking.
- Commerce fosters the tolerant attitudes essential for liberalism, particularly the readiness to overlook religious and cultural differences.
- Commerce ingrained in individuals the principles of reciprocity and fairness, primarily to maintain a reputation and continue reaping its benefits.

## Voltaire, *Philosophical Letters*, 1733

"Take a view of the Royal Exchange in London, a place more venerable than many courts of justice, where the representatives of all nations meet for the benefit of mankind. There the Jew, the Mahometan, and the Christian transact business together, as though they were all of the same religion, and give the name of Infidels to none but bankrupts."

## Means to an end

**Richard Boyd, Manners and Morals: David Hume on Civility, Commerce, and the Social Construction of Difference, 2008**

“as unappealing as the ideal of mutual self-interest (treating other people as means) may appear from the perspective of a Kantian ethics of the ends, that act of appealing to someone’s interest does have the virtue of taking them seriously as a fellow human being. By way of contrast, appealing to force in order to impose one’s beliefs or ideals on another is inherently degrading because it does not take seriously the other self as being worthy of our respect.”

**Philip H. Wicksteed, The Commonsense of Political Economy, 1910**

“Any relation into which I enter for the fulfillment of my purposes may, in a sense, be called unmoral, inasmuch as it is a means and not an end. But if by unmoral we mean unaffected by moral considerations, or not subject to moral restraints, then the economic relation is no more unmoral than the relations of friendship, the relations of sex, the relations of paternity, or the family relations generally. There is no actual or conceivable community in which the economic relations are not habitually subject to the control of moral principles.”



# Enke, Market exposure and human morality, Nature, 2023

