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About the Role of Morality and Religion in the Market System

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*Liberty cannot be established
without morality, nor morality
without faith.*

Alexis de Tocqueville

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1. On the catallactic rules

Taking into account the fall of optimistic expectations and technocratic illusions connected originally with the policies of economic transformation in post-Communist countries (especially in the case of Czech Republic where this fall led to nihilistic moods and moral resignation), it seems to be necessary to clarify the role which morality and even religion play in the free market system. This is not an easy task because among the classical liberals themselves (not to mention the Socialists who denounce capitalism to be essentially immoral) there are various theories explaining the relations between market and morality. It seems to be useful to introduce our subject by a brief discussion of the most relevant points of those theoretical approaches.

The point upon which all classical liberal theories can agree is that the necessary condition for the functioning of the free market system is the fact that individuals in their market interactions observe a set of rules which, with reference to Hayek, may be here called "catallactic" rules. These rules are mutually interconnected and their contents are factually the same notwithstanding that various branches of classical liberalism use various terms to describe them. They can be presented, e. g., in the following way: [1] the rules guaranteeing private property (which also include the principle of voluntary exchange devoid of any coercion, and the prohibition of extra-judicial

coercion in general); [2] the rule of promise and contract-keeping (including contractual liberty); [3] the finder-keeper rule (the rule of homesteading).1) Or, in characterising the catallactic rules we can – together with Hayek – refer to a brilliant formulation by David Hume who called them "fundamental laws of nature" and saw their function in the guaranteeing of "the stability of possession, of its transference by consent, and of performance of promises."2)

Accepting this point, the classical liberal theories differ from each other in their attempts to explain the way in which individuals are related to these rules, or what is the kind of human activity through which the necessary conditions for market system are preserved and reproduced. There exist three main kinds of explanations: [1] **rule utilitarianism** – which argues that people regard the catallactic rules as a useful instrument that helps them to maximise their utilities; in doing so, it appears to be a version of relativism; it frequently connected with constructivist legalism the representatives of which believe that the maintenance of catallactic rules is sufficiently guaranteed when they are implemented into a well-coherent network of legal institutions;3) [2] **moral absolutism** – asserting that man's true relation to rules consists in the fact that man does not take them as anything external, but, on the contrary, he interiorises the rules, identifies himself with them and puts their observance on the top of his value hierarchy; this is possible only if these rules can find their legitimacy in the transcendent sphere (through religion or non-relativistic philosophy); in the strictest form of moral absolutism (Kant), the observance of rules is an end in itself; [3] **traditionalism** – according to this conception, people observe rules blindly, under the pressure of tradition, and they do not need to ask about the causes and purposes of observed rules; nor, they do not cast any doubt upon them.4)

All of these approaches have a kind of empirical verification because each of them can be related to really existing individuals or groups whose behaviour conforms to the corresponding theory. The question is what kind of individuals' relation to catallactic rules has decisive meaning for the development of the free market system.

2. Rule utilitarianism

A very radical form of the utilitarian approach to catallactic rules can be found in George Stigler who says that there is no need to introduce morality into the economic debate; the experience of economic agents suggests that earning a reputation for honest dealing is an important business asset that allows the businessman to maximise profits in the long run.5) Stigler here reduces morality to mere utility, but the fact that he did not avoid the use of the word "honest" shows that morality is a special kind of utility.

Nevertheless, Stigler's statement is only a repetition of the famous

argument by Adam Smith; Gary Becker recently formulated this argument in such a beautiful manner that it deserves to be presented: "Adam Smith compared the businessman and the diplomat. He said the businessman has an incentive to be moral, honest, and reliable because he wants customers to continue to deal with him. If he is dishonest, they will not deal with him in the future. The diplomat, on the other hand, deals in unique or infrequent situation, and therefore is not under pressure from repetitive interactions to be honest and reputable. So Smith claimed businessman are generally much more honest than politicians, and especially than diplomats who deal in relatively infrequent international controversies."6) We can see that in popular speech the argument sounds: "To be honest pays off."

Gary Becker adds that "market economy makes people more self-reliant, more independent, and more moral, in the fundamental sense of being able to take care of themselves rather than being dependent on governments and others for support. (...) So good business practice not always, but very frequently, produces moral behaviour." The things seem to be clear: mere utilitarian approach leads people to follow catallactic rules, this leads in turn to the well-functioning market and such a market produces very important moral qualities. Taking into account that utilitarian orientation is a universal human characteristic, we must nevertheless ask: where do the problems in transition economies arise from?

Smith's, Becker's and Stigler's arguments are based on a supposition that the prevalent majority of the population is able to prefer rationally recognised long-term self-interest to blind greed which usually leads people to breaching the rules. It would imply that the problems in transition countries come from the fact that there is a relatively large proportion of people who are now unable to define in an enlightened way their long-term self-interests. (Gary Becker states that there exist various degrees of man's discount of the future.) And, in accordance with this approach, there would be a hope that after a period of learning (via the trial and error method) and collecting experiences, the post-Communist people will be able to have an insight into the character of their long-term self-interests. In other words, it is believed that reason (in the classical understanding of the term where reason is defined as preference of long-term interests to blind instincts and passions oriented to the immediately coming future) will ultimately prevail.

It can be conceded that this conception, connected closely to the British-Scottish version of the Enlightenment is fully correct as applied to an established capitalist society: when people in such a society find out that the consequences of existing welfare-state policies endanger their economy (i.e., endanger their long-term self-interests), they can learn from this error and, accordingly, vote for market-oriented political programmes.7) Thus, rule utilitarianism is fully successful in explaining, for example, that the programme of Mrs. Thatcher

became accepted by the majority. Nevertheless, the very fact of the later triumph of the Labourists (and the Social-Democrats in Germany, etc.) shows that even in the most developed capitalist countries, the duration of such a period of "people's enlightenment" is limited and that the knowledge which has arisen from the experiences of a generation of voters cannot be so easily transferred to the following ones.

In the post-Communist countries, the situation is incomparably worse: Is it possible to believe that, e. g., people in Bosnia and Serbia would, without external intervention, come to the utilitarian conclusion that peace and the observance of catallactic rules are more useful than war and violent expropriations of property as connected to the war? Here and also everywhere it can be seen that the calculating utilitarian reason is too weak to face the deep-seated passions, emotions and instincts of national and religious hatred, envy and blind greed. It also implies that purely utilitarian reason as oriented to long-term self-interests must have a support in emotional (and even religious sphere) in order for it prevail over the massive power of blind instincts. Adam Smith himself was aware of the weakness of the enlightened utilitarianism and, in his *Theory of Moral Sentiments*, believed to find the emotional support for it in the innate feeling of sympathy which – as innate – is not subordinated to rational calculations and rectifies them when they erroneously lead to the preference of blind short-term interests.⁸)

Lord Keynes expressed another weak point of rule utilitarianism, which becomes especially explicit in transition countries, in his famous motto: "In the long run, we all are dead." Unfortunately, it is absolutely true because our long-term interests are very essentially limited by the finite length of our life and that in his acts of preferring, human individual necessarily chooses between finite quantities of utility.

Let us have an example of an entrepreneur who has a unique opportunity to gain – under the condition that he would breach the rules – a great amount of money which exceeds many times the income he expects to gain from his future entrepreneurial activity as a whole, i. e., since the moment when he has to choose until his death. We can suppose that he is an average man and that he relates his expected incomes to the average profit rate. Moreover, as an experienced businessman he knows that to be successful in competition will require very hard work and he also knows that despite the most serious work effort he can become impoverished by simply having bad fortune; knowing that risk is a constitutive part of market relations, he has in fact no certainty in his estimation of his future profits as these would come from his honest activities. On the other side, he can estimate more precisely how much money he needs to secure a high standard of living for himself and his family. So, if he regards (in harmony with Smith's comparison between businessman and diplomat) his honesty, reliability and others' people respect only as an instrument for

maximisation of his future profits, he will have no hesitation to breach the rules.

When we suppose that the form in which our businessman breaches the rules consists in getting a lot of loans for a seemingly very promising entrepreneurial project and, later, in going bankrupt in a well-sophisticated way, then it implies that he can, moreover, try to vindicate himself in the sense that his entrepreneurial intentions, made in good faith, simply showed to be errors, or, that he undeservedly had bad fortune. He therewith only misuses the fact that in the market system (which is necessarily amalgamated with trial and error method) it is not possible to punish people for having erroneous entrepreneurial projects and estimations.⁹⁾

It can be objected that the above described case of pilferage is a relatively rare phenomenon because the self-interests of bankers and investors who are normally very cautious about their money, would prevent our dishonest entrepreneur from doing such enormously profitable pilferage. Generally, this objection is true but it is not the case of transition economies where the most important banks and also big enterprises are still owned by the state, or where the losses of banks, insurance companies, etc., are compensated from the state budget.

We shall now treat the problem from the standpoint of constructivist legalism which operates solely at the level of positive law (devoid of any absolute basis as this can be found in the theory of natural law). The constructivist legalism thus says that when there exists a well-defined and enforced network of positive legal rules protecting private property, a dishonest entrepreneur would (in spite of his immorality) follow the rules because in the opposite case he would be afraid of a legal sanction.

It can be easily shown that legalism is in its essence only a modified version of rule utilitarianism as devoid of any moral dimension: If we simply replace utilities with disutilities, we can describe the calculations of a person who respects the rules in the following way: The disutility coming from my breaching the rule is higher than the disutility coming from the fact that I must set some limits to my greed or laziness or aggression, etc. In a popular form, the motto of man who applies a legalistic approach to the rules is: "I do not steal (kill, rape) because I am afraid of being caught and punished. If I were certain that I would not be caught, I would steal, etc. with no hesitation." Immanuel Kant called this approach "legality" and treated it as a degenerate way of man's relation to rules and norms.¹⁰⁾

It can be also proved that under pure legality (in Kantian sense) the enforcement of law would completely fail because it would be performed by people (policemen, investigators and judges) who would, too, regard law only as an external obstacle to reach their selfish goals. When turning back to our model example of the entrepreneur who gained unlawfully a great amount of money, it

is clear that he can give the policemen and judges such bribes which exceed their expected incomes (salaries) coming from their professional work in the period by accepting bribes until they retire. Accordingly, the classical constitutional practice of division of power (or of the system of checks and balances) would be able to resist bribery and corruption if it were founded solely on constructivist legalism of positive law. Moreover, the democratic institution of independence of judicial power (i. e., the absence of direct state or political control over judges) makes the corruption of judges even easier.

Nevertheless, perhaps the legal system would not totally decay even if all people would treat their relations to the laws and rules in the sense of Kantian utility and if all of them were corrupted; namely, it is utmost useful for anybody when the others follow legal rules. So, the rich bribers would not want to destroy the law-enforcing institutions entirely; they would be content if the bribes ensured them impunity as a kind of silent privilege. So, a full absence of moral dimensions in man's relation to catallactic rules would turn capitalism into that ugly caricature which is known from the Communist criticism of the "bourgeois" justice.

3. Moral absolutism

The contrast between the relativistic (utilitarian) and absolute foundation of catallactic rules becomes very explicit when we formulate it in terms of utilitarianism itself. Let us have for instance the familiar Christian form of the justification of those rules through the Commandment "Thou shalt not steal!" Each Christian as believing in the immortality of soul knows that the divine sanction for breaching a Commandment is eternal condemnation – which can be in utilitarian terms defined as infinite disutility. This implies that in the mind of a truly Christian entrepreneur there can be in fact no possibility of balancing between what is prescribed by God and what is at variance with it: as compared with the infinite disutility of eternal condemnation, or with the infinite utility of salvation, all other utilities acquired in the earthly life must *ex definitione* be finite. And no finite utility, no disutility connected with the following of the Commandment when we must suppress the temptations (and this disutility is finite, too), can outweigh the infinite loss coming from one's breaching the Divine Law. Following the Commandments means to be oriented to our absolutely long-term interests and prefer them to all short-term ones (including our being materially fully satisfied until our death). It is not said that a religious man cannot commit a sin; he surely can, but from his perspective, his sinful behaviour will necessarily result in his eternal (post-mortal) suffering from the Divine punishment (which can be expressed in terms of economics as a kind of goods with infinite degree of disutility); it implies that from a believer's

perspective, his immoral behaviour is unequivocally irrational.

Of course, from the psychological point of view, our relation to God does not usually have such a utilitarian form. Believing in God sincerely, people interiorise His Commandments and turn them into moral norms; simply speaking, they love God and therefore they do not want to breach His prescriptions. This implies that religious faith and morality based on religion is the most effective way for the maintenance of catallactic rules.¹¹⁾

Besides religious foundations for catallactic rules there exist various philosophical attempts to find the absolute ground for morality which includes these rules. All of these attempts suffer from the fact that each of them had or has its philosophical opponents who cast radical doubt upon it and proved its being inconsistent. (These criticisms, of course, concern also religious philosophy and religion as such.) So, the movement of philosophical thought resulted in the fact that none of the philosophical justification can be accepted universally.

Among these justifications, the theory of natural rights is in the best position now. As incorporated into the constitutions of civilised countries, it became known and practically applied almost all over the world. It became also the (absolute, i. e., non-utilitarian) basis for non-constructivist legalism. Nevertheless, in its explicit form, made by John Locke, it refers implicitly to Aristotle and his concept of the invariable and eternal character of natural kinds including human essence (from which the natural rights are derived). The idea of invariability of natural kinds is in contradiction not only with Darwinism, but also with Locke's epistemology which permits us to know solely what is, and not what ought to be. This implies that the theory of natural rights is a kind of ideology – but ideology in Hayekian sense, which, going beyond the limits of our empirical knowledge and asserting the absolute inviolability of the principle of liberty, serves the functioning of the free market better than our necessarily limited knowledge of the consequences of our actions.

Another form of philosophical justification of the absolute character of catallactic rules is Kantian philosophy which made the Golden Rule (under the name of the categorical imperative) an a priori valid formal principle from which all catallactic rules can be derived; their aprioristic foundation means especially that they should be subordinated to no empirical (relative) purposes defined by utilitarian reason. The observance of the catallactic rules is thus an unconditional (absolute) end in itself. Kant even adds that our belief in God, immortality of our soul and the moral order of the universe is a necessary condition for our moral actions – notwithstanding that the existence of God cannot be proved in theoretical philosophy. In a Neo-Kantian manner, Ludwig von Mises and his followers (as Hans-Hermann Hoppe) try to find the foundation for catallactic rules in the *a priori* structure of human action. But both Kantian and the Neo-Kantian versions of aprioristic philosophy suffer from

dualism – the sphere of the *a priori* principles and structures is absolutely separated from the rest of the (empirical, i. e. *a posteriori*) world.

As concerns the theory of social contract, it was already Kant who proved that no such contract could empirically proceed, and interpreted it the contractarian conception as a regulative idea we necessarily have in mind when we think about the origins of civilisation; in other words, he defines the contractarian idea approximately so as we now define ideology.

4. Traditionalism

In order to avoid the problems coming from both relativistic utilitarianism of rules and Kantian aprioristic absolutism, Hayek refers to the traditional character of catallactic rules. Being fascinated by A. N. Whitehead's statement that "civilisation advances by extending the number of important operations we can perform without thinking about them,"¹²) he suggest that people observe the catallactic rules in most effective way when they follow them automatically, "blindly," without asking about their causes and purposes. Non-reflecting the purpose of catallactic rules (as we usually do not reflect the function of various customs, habits and rituals we perform), people cannot treat them in a utilitarian way and compare their utility with the utility of various partial goals or aims coming from their experience; this is why people simply do not subordinate the catallactic rules to none of those partial goals or aims. It can be seen that in Hayek, the catallactic rules have in fact the character of Kantian end in itself which is beyond the relativistic utilitarian treatment; nevertheless, Hayek preserved the Kantian heritage only under the condition that the end or purpose of catallactic rules remains unknown, i. e. unconscious. This led him to develop the conception of the spontaneous (i. e. unconscious) emergence of catallactic rules.

Generally speaking, Hayek's interpretation of catallactic rules as automatically observed traditions is not correct. He himself became aware that it was a mistake to regard traditions as totally isolated islands of aimlessness, separated from other human spiritual activities in which people try to grasp the origin and purpose of the universe; in his *Fatal Conceit*, he corrected somehow this simplified view and connected traditions with religions, ascribing the latter the role of the "guardians of traditions."¹³)

Nevertheless, even at our times there exist some people whose relation to catallactic rules corresponds to Hayek's traditionalist interpretation. We may call them people of "simple and sincere heart;" they are honest because during their education, the rules and norms of correct behaviour were imprinted so deeply into their minds that those people respect them really "blindly,"

”uncritically,” ”unconditionally,” i. e., without having any need to have any metaphysical or even religious justification of the respected rules.¹⁴(This is also the case of honest atheists.) Unfortunately, due to spiritual decadence of our civilisation, popular pseudoscientific interpretations of human behaviour, such as Freudian psychoanalysis and various other forms of determinism and relativism incessantly attack the moral consciousness of people of ”simple and sincere heart.” Moreover, the psychic constitution of those people usually prevents them from reaching important or even top positions in political or economic life.

It can be said in conclusion that in well-advanced capitalist countries, people’s relations to catallactic rules is still based prevalently upon moral absolutism especially in the form of Christian religion and the ideology of natural rights which is fully compatible with the former. Of course, the authority of religious foundation of the rules is not so strong as it was in the era of Calvinism and Puritanism. As concerns the post-Communist countries where the Communist regime tried to destroy systematically not only religions, but also all previous achievements of civilisation of culture (including people’s respect for universal moral principles, for natural law, for the principle of rule of law as such, etc.), the prevailing attitude to catallactic rules is ”legality” in Kantian sense: people do not breach those rules only when they have no opportunity to secure impunity via bribery and corruption.

Notes and References

1) Cf. Gerard Radnitzky, Hayek’s Contribution to Epistemology, Ethics and Politics, in: Christoph Frei, Robert Nef (eds.), *Contending with Hayek*, Peter Lang, Bern 1994, p. 83. Among the catallactic rules, Radnitzky presents also ”the least harm principle” and its corollary – ”the precept to minimise the domain of collective choice.” On the one hand, it is correct because this principle expresses the very essence of free market, but, on the other hand, it can hardly be transformed into a maintainable legal norm.

2) David Hume, *A Treatise of Human Nature*, in: David Hume, *Philosophical Works*, ed. T. H. Green and T. H. Grose, London 1886, p. 293. See also F. A. Hayek, *The Fatal Conceit, The Collected Works of F. A. Hayek*, Volume 1, ed. W. W. Bartley III, The University of Chicago Press 1989, p. 34.

3) ”The market process... requires only a well-defined and enforced system of private property rights in order to exist.” Peter J. Hill, Markets and Morality, in: Mark W. Hendrickson, ed., *The Morality of Capitalism*, The Foundation for Economic Education, Irvington on Hudson 1992, pp. 57-58.

4) Of course, there are theories which try to synthesise some of the above mentioned approaches (e. g., Hayek who in fact explains traditional observance of rules as a kind of unconscious utilitarianism). It should be added that the theories of social contract explaining the origin of legal institutions can be based upon both rule utilitarianism and moral absolutism (Locke).

5) George J. Stigler, *The Economist as a Preacher and Other Essays*, The University of Chicago Press 1983, quoted in: Jan Winiecki, Formal and Informal Rules in Post-Communist Transition, chapter 2.2. (to be published in: Domenico da Empoli, ed., *Economia delle scelte pubbliche*, Roma).

6) Cf. Jan Pavlik, ed., *Gary Becker in Prague*, Liberalni Institut and Centre for Liberal Studies, Prague 1996, pp. 58-59.

7) This is especially true for people who, having been educated in the tradition of British empiricism, are teachable instead of being indoctrinated with rationalistic philosophies and ideologies. Cf. Leonard E. Read, Economics for the Teachable, in: Mark W. Hendrickson, ed., *The Morality of Capitalism*, pp. 131-140.

8) Cf. Edward Coleson, Capitalism and Morality, in: Mark W. Hendrickson, ed., *The Morality of Capitalism*, p. 35.

9) The legal institution of prison for debtors, though prevented people from making profitable "bankruptcies," inhibited on the other hand businessmen's willingness to risk, and harmed in this way harmed the development of economic activities.

10) Georg Wilhelm Friedrich Hegel refuted liberalism precisely because he believed that liberalism was identical with Kantian legality. In his philosophy of history, Hegel believed that such form of immoral legalistic liberalism was applied by the Ancient Romans in the period before accepting Christianity and Christian morality, and regarded their society as the deepest form of man's spiritual alienation from society (and also from the Absolute). These references to Kantian and also Hegelian theory show that the legalistic treatment of liberalism can easily evoke a criticism and repudiate people with strong moral background.

11) Nevertheless, as Kant pointed out, pure morality without legal sanction is not sufficient to maintain the rules enabling modern civilisation. Despite the fact that man has clear awareness of moral duties (and that he even has – according to Kant - an *a priori* knowledge of the basic moral principle), there is a radical evil in man which leads him to act against the norms; this is why the legal sanction is necessary.

12) F. A. Hayek, *The Counter-Revolution of Science*, Liberty Press, Indianapolis 1979, p. 154.

13) F. A. Hayek, *The Fatal Conceit, The Collected Works of F. A. Hayek*,

Volume 1, ed. W. W. Bartley III, The University of Chicago Press 1989, pp. 135-140.

14) In his brilliant description of the man's immediate and non-reflected relation to norms and laws in the frame of traditionalism, Hegel stresses that from the standpoint of man respecting traditions, the laws simply *are*, and shows how is this understanding of law expressed in Sophocles's *Antigone*:

"They are not of yesterday or today, but everlasting,
Though where they came from, none of us can tell."

Hegel further why the rational (scientific) reflection of the origin of norms and laws destroys man's traditional approach to them: "If I inquire after their origin and confine them to the point whence they arose, then I have transcended them; for now it is I who am the universal, and *they* are the conditioned and limited. If they are supposed to be validated by *my* insight, then I have already denied their unshakeable, intrinsic being, and regard them as something which, for me, is perhaps true, but also is perhaps not true. Ethical disposition consists just in sticking steadfastly to what is right, and abstaining from all attempts to move or shake it, or derive it." G. W. F. Hegel, *Phenomenology of Spirit*, translated by A. V. Miller, Oxford University Press, 1977, p. 261-262.

