

THE MARKET AND HUMAN VALUES

by John Davenport

A graduate of Yale, John Davenport worked for the New York Morning World and the Century Company before joining Fortune's staff in 1937 as a writer. Between 1949 and 1956 he was the editor of Barron's National Business and Financial Weekly. On returning to Fortune, he became assistant managing editor and a member of its editorial board. He retired from Time, Inc., in 1969, but continues to contribute to Fortune and other publications.

Mr. Davenport delivered this presentation as part of the 1974-75 Ludwig von Mises Lecture Series at Hillsdale College.

I am delighted to be with you at Hillsdale College and have already confirmed what I knew before coming here — that this is, to say the least, an active place. The confirmation came last evening when I left the sanctuary of my room at your college and sallied forth in the dark to visit your library, in which we are now assembled. On the way I very nearly fell into an excavation which in time will become another building to adorn your campus. The moral, I suppose, is not to wander about an institution headed by George Roche. It is subject to rapid change and, despite my near demise, change for the better.

I am also honored to be included in what has become known as the Ludwig von Mises Lecture Series, though this strikes me as inviting a boy (if an old boy) to do a man's work. After all, I am only a working journalist, whereas it is not too much to say that von Mises was a foremost economist of our times, though his role as such was never publicly acknowledged by what we may call The Establishment. He was the leading champion of the free market economy in this century. He was a devastating critic not only of Marxian Socialism but of that "soft socialism" which infects so much of our thinking today. He was finally a scholar and a gentleman — a scholar ever ready to bring a vast store of learning to the principles he believed in, and a gentleman in

the sense that while he did not suffer fools gladly, he never lost an Old World courtesy and graciousness which he displayed toward friends and foes alike.

I trust this spirit of tolerance is brooding over this meeting tonight as I examine two different aspects of von Mises' thought. The first part of my task is relatively easy. It is to run over rapidly the chief arguments for the market type of economy and to dispose of some of the chief criticisms that are made of it. But the second and main part of my assignment is more difficult and controversial. It is to explore the underpinnings which seem to me necessary to maintain this kind of economy in a hostile world. And here my thesis will be that while the market is self-sustaining in an economic sense, it is not necessarily self-sustaining in a moral sense. It requires a framework of law, order, and ethical consensus that involves fundamentally an affirmation of certain human values. The market is not an end in itself, but the means to higher ends. Definition of these ends leads us inevitably into the domain of philosophy and metaphysics.

Two and One-Half Cheers for the Market

This may appear a brash statement in a so-called scientific age, but the importance of values is really implicit in the arguments which protagonists of the

market make for this form of social organization. Let us briefly run over the position. It should not have taken the Arab sheiks to remind us that by definition all economic goods are scarce, whereas the hunger of man for those goods is well-nigh infinite. In this situation some means must be found for *allocating* scarce resources — be they work, materials or capital — to human wants. There are basically two ways in which this may be done. In the first place, we might conceive of some all-wise government which would plan out in advance what goods would be produced each year according to some master chart or plan. This is the road taken by Marxian Socialism, and to my horror I see it is still being taken seriously by various intellectuals who want to set up a master-planning agency in Washington.

The trouble with such a system, of course, is that government officials are not all-wise when it comes to knowing what people want, and furthermore that the only way by which government can enforce its plans is by using some form of *coercion*. Economic planning in this sense cannot be squared with human freedom. It cannot even be squared, as von Mises has brilliantly shown, with rational choice and decision. It is easy for governments to decide that their people will probably want some bread to eat. They will also want shoes to put on their feet. But how much bread? How many shoes? These are the questions which officials cannot really answer.

By contrast, a market economy solves the problem of allocation smoothly and efficiently. Assuming that there is a given income distribution, consumers bid for what they want via the price mechanism. This gives them a vote in the economic arena which may be just as important as, and perhaps more important than, their vote at the ballot box. The price system is really a sophisticated signalling system which indicates what should be produced, and in what quantities. The wage system is likewise a signalling device which indicates where labor is most productive. Were labor “taken out of the market,” as organized labor has declared it ought to be, we would be left without guide or rudder to determine how the world’s work should be accomplished. Finally, profits — the difference between final prices and costs — are the evanescent margin of return that goes to producers and entrepreneurs for bringing labor, materials and capital together before goods can be sold. In a growing economy someone must undertake this risk, and it is far better that it be diffused among individual entrepreneurs and corporations than concentrated in the hands of bureaucrats, whose mistakes in judging human needs are apt to be monumental.

It may come as a surprise to you that even the late John Maynard Keynes had no quarrel with this proposition and concluded his famous *General Theory of Employment, Interest and Money* with a ringing apologia for the market’s virtues. Where Keynes broke with the classical tradition was on the question of whether the market is economically self-sustaining. Following Jean Baptiste Say, most economists before Keynes’ time had assumed that production in the market creates its own demand: it is the shoes which the shoemaker makes that constitute his real purchasing power for food produced



by the farmer. The heart of the *General Theory* is its attack on Say’s law of markets and on the grounds that in a capitalist society, people will attempt to save more than they invest. From this it followed that governments must step in to fill the gap by spending and extending easy credit, if we would maintain full use of our resources.

This was, to say the least, music to the ears of politicians who for thirty-odd years have been presenting us with ever-rising government expenditures and budget deficits. With what results? With the result that inflation has predictably grown apace, while unemployment is still very much with us in the mid-seventies. The truth seems to be that debasement of the currency and government efforts to pump up so-called "aggregate demand" are a self-defeating process. They may sometimes restore prosperity for a while, but in the end we suffer the worst of both worlds — namely stagflation. It is a tribute to von Mises that he never accepted the Keynesian analysis and hence never accepted its conclusions. He held that society needs a stable currency and that government may have a part in creating it. But given this framework, his position was that unemployed resources are not the result of market forces but rather the result of blockage by powerful labor unions, minimum wage laws, and other forms of government interference. Were he alive today, I suspect that his prescription would be far different from and far simpler than the ideas currently circulating in Congress and in the White House. He would propose elimination of monopoly practices in both industry and labor, combined with a cut in, or elimination of, that most foolish of all taxes — namely the corporate profit tax.

The Limits of Neutrality

I trust that by now I have convinced you that I am a good free marketeer in the Misesian sense of the word, if not in that of Ayn Rand. I would like now to advance up more slippery slopes. Granted that the free market is a buttress of liberty, a coordinator of free and spontaneous collaboration, and that given proper adjustment of prices, costs and profits, it has no inherent tendency to run down — granted all this, is it a self-sustaining mechanism in a deeper sense? Can we safely argue for the virtues of the market without paying some attention to virtue itself in the ethical meaning of that word? Can the market succeed without the commitment of society and a nation to certain fundamental values that lie beyond the margin of supply and demand and so-called "indifference curves"?

And here we come to a paradox that involves the very nature of economics and the task of the economist. Von Mises and the Austrian school of economics which he represented freed us from viewing economics as some kind of spurious physical science. Economics, as von Mises made plain in his great book, *Human Action*, is not the study of physical wealth, as some earlier economists had believed. It is fundamentally the study of *human*

choice and preferences in the face of scarce resources; and such choice is obviously psychological in nature. Human behavior is *purposive* in character, and purposes involving judgment of the future, as well as of the past, cannot be reduced to outward events which can be studied under the microscope. Purposes, it would seem evident, involve ends and values. And yet it was a prime tenet of von Mises' teaching, and certainly is a prime tenet of most modern economists, that economics is *value free*. Economics studied human choice, but when it comes to human choices it does not pass judgment. To put it bluntly, if men choose to buy cocaine instead of Coca-Cola, that is to be lamented from a social point of view. But the economist *qua* economist is supposed to keep his mouth shut.

Now I find that this doctrine of ethical neutrality in modern economics has something to be said for it. Economists are busy enough nowadays explaining the intricacies of supply and demand (of oil, for instance) and further explaining the intricacies of the modern money system without getting themselves involved in moral judgments. They perform a highly useful function in explaining that if a man or a nation follows course A, the consequence B is apt to follow. All of us, including government officials, do need to know the probable consequences of alternative lines of action, whether these relate to our personal lives or to social issues, such as rent control, environmental protection, or the inflation of the currency. Yet I also find this doctrine of ethical neutrality on the part of economists a puzzling and at times highly dangerous one. For one thing, few economists, and least of all my libertarian friends, are really able to stick to it. They are, in fact, constantly telling us what we ought to do rather than what we do. Indeed, the whole case for free enterprise and the market economy rests on moral evaluations — that freedom and collaboration are good, and that coercion, in general, is bad.

Moreover, I would remind you that even the most devoted of free marketeers, who are against most interferences by government in the price-profit system, still assume that *some* governmental framework is necessary if the market is to perform its functions. The market requires the enforcement of property rights and of contract. It assumes a framework of law which has its foundation deep within a moral public consensus. It requires a viable monetary system through which all prices, wages, and profits are registered. Government is involved here whether it adopts some form of gold standard or whether, following the advice of the Chicago school of thought, it adopts some fixed rule for enlarging the money supply, defined in terms of currency and

checking accounts. Even if we assume that gold coins will circulate again, still the king's head or the American eagle will presumably be stamped on the coins.

The Market Depends on Order

In short, the market system is dependent upon a right and just political order, and such an order, as Aristotle saw long ago, depends on our making up our minds as to what constitutes justice and other



forms of the Good. I conclude that while economists may abstain, if they like, from passing judgment on individual acts of human choice, they cannot possibly remain neutral when it comes to defining the kind of economic and political order which makes freedom of individual choice possible. Perhaps we should allow them the privilege of wearing two hats, so to

speak, donning one when they play the role of the economist, but putting on the other when they speak as concerned citizens. But I confess I am not too fond of hat tricks, especially when the same bald or bushy head is discovered beneath the felt!

More seriously, I wish that economists would abstain from making highly dangerous philosophic statements in their efforts to defend their alleged scientific neutrality. If you ask many of them today (not necessarily the followers of von Mises) why they are ethically neutral, their answer all too often will be that ethical judgments are, by their nature, "subjective" whereas economic judgments are "objective." Now this is a very dangerous statement. If all that is meant by it is that ethical judgments are psychological and non-physical facts, well and good. But if what is meant is that ethical judgments are *ipso facto* capricious and not subject to general moral laws, then we are in very serious trouble indeed. For in this case, we would be left with no common standards and criteria for evaluating human actions. We would be left in a world where all that could guide us would be the attitude, "You do your thing, and I'll do mine."

But I submit that this business of "you do your thing and I'll do mine" is really an invitation to anarchy or worse, if there be anything worse. It is first cousin to that Relativism and Logical Positivism (i.e., only the measurable is real) which afflict the modern world and which have undermined the very intellectual foundations of what Walter Lippmann once called the Good Society. In the Good Society it must be assumed that there *are* enduring standards for judging the good, the beautiful, and the true. Indeed, without belief in truth, science itself becomes impossible. In this matter it seems to me that some thinkers of the Middle Ages were far ahead of our latter-day philosophers and economists. For they posited a "natural order" which included not only the so-called facts of nature, as we observe them, but also certain moral laws that were just as real as the facts of nature, even though they could not be observed by the human eye (or the modern microscope). It is my contention that if we are to have the kind of economy free marketeers say they want, and the kind of *limited* government which most of us want, then some such comprehensive Natural Order must be assumed. In short, we must reconnect economics with philosophy in both branches of the latter subject — with metaphysics, the study of the Real; and with ethics, the study of the Good.

"Get You Wisdom"

Now all this is pretty deep stuff, and I must

apologize for having led you into it. Yet my remarks have been dictated by the very nature of the topic assigned. The assignment was not just to defend the market system of economy. It was to try to indicate that we cannot get very far in that defense without considering *human values*, and that once that Pandora's box is opened we are up against questions as old as Plato and Aristotle.

I would commend both men to your attention, especially Aristotle, who after all wrote the first short treatise on economics as part of a much broader synthesis. For Aristotle economics was part of politics, and politics in its turn flowed out of ethics. And that, when you come to think about it, is more or less how the Founding Fathers of this country proceeded. Madison, Jefferson and Hamilton did not begin by defining a full-blown economic system. On the contrary, they began with certain assumptions about the nature of man, that in the language of the Declaration, "all men are endowed by their Creator with certain inalienable rights." From that assumption flowed their concept of limited rather than unlimited government. And from that assumption flowed an economic system which, while dependent on government for its basic framework, nevertheless took from government the decisions of how the world's work should be performed and how resources — human, material, and capital — should be allocated.

Today this order of priorities has been strangely reversed. We have a vast body of so-called economic knowledge and statistics which is kept in one compartment of our thinking. Then we have our so-called "political scientists" who argue to and fro about the nature of government. Finally, we still do have our philosophers, though their field has been invaded recently by such types as Angela Davis and Professor Herbert Marcuse, a confirmed Communist. Their discussion is too often clouded by exercises in symbolic logic or arid studies of semantics and

linguistics. Never mind. I hold that there still is a great philosophic tradition, and that some acquaintance with Greek and medieval philosophy will serve you well in your comprehension of modern economics.

I would add furthermore that you will not understand our civilization without exploring that other great tradition which has shaped it — namely Christianity. As Edmund Opitz has argued in his brilliant book, *Religion and Capitalism: Allies, Not Enemies*, there should be no quarrel between the deepest insights of religion and the kind of free economy we wish to preserve against the inroads of the all-powerful state. On the contrary, it is where secularism and materialism have taken deepest hold, as in Communist Russia, that the free economy has been all but eliminated. Religion, Marx held, was the "opium of the people." What force is to reinforce the Good? And what force is to stand up against the princes, principalities and dictators of this our modern secular world?

So, in conclusion, I trust that while at Hillsdale you will make the most of what used to be called a liberal education. Such an education means making at least nodding acquaintance with many specialities. But specialization should not mean losing sight of those deeper truths that have shaped this extraordinary country of ours. Today men are hungry to see our multifold academic disciplines reoriented around those core values of what Winston Churchill once made bold to call Western Christian civilization. As this is done, even the so-called "dismal science" of economics becomes, if not a seductive bride, at least an attractive bridesmaid. Tonight I invite you to this adventure in thought and imagination, of which Ludwig von Mises might have been skeptical, even while wishing you good luck in your endeavor. "Get you Wisdom," said the Psalmist, and most other things will be added unto you. Well, go and get it!

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