

From Approximate Value Neutrality to Real Value Relevance: Economics, Political Economy, and the Moral Ecology of the Market Order

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Several years ago I participated in a conference at the National University in Galway, Ireland. During the conference a critique of Ireland's economic reforms of the 1990s spoke and as he took the stage he told the audience that he refused to study economics and was proud that he never learned the perverted teachings of the discipline. After an hour of ranting he closed his speech. The first question came from a friend of mine, Michael Munger of Duke University. Mike was extremely well-trained as an economist in the public choice tradition at Washington University of St. Louis where he worked with Barry Weingast, Ken Shepsle, and Art Denzau, among others. Weingast and Shepsle have since moved to Stanford and Harvard respectively to become political economists working in political science departments, and Denzau works now at the Claremont Graduate Center where they have a PhD program that specializes in economics and political economy. Mike has in fact followed a similar path and is now one of the leading political scientists in the American academy and is the Chairman of the Department of Political Science at Duke. So when Mike rose to speak he said perhaps the best line I have ever heard at a conference: "I am an economist by training, but a political scientist by vocation. But the one thing that has always amazed me throughout my career is how people are so willing to admit their utter ignorance of economics, yet joyously proceed to waste an hour of everyone's time proving it to us." The speaker didn't know what to say, Mike had cut him to the quick.

Was Mike cutting the dialogue short or was he raising a relevant point? I would argue that the correct answer is Mike had responded perfectly appropriately given the context and the nature of the speaker's argument against the teachings of economics and the market economy in particular. Daniel Finn's *The Moral Ecology of Markets: Assessing Claims about Markets and Justice* laments the non-existent debate between critics and advocates of the market economy. His book sets out to develop a common-

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language and a framework for the two sides to engage one another. But the real problem is that sometimes the position held by the non-economist on these issues of the moral assessment of the market economy is simply uninformed. It is not just that the economists and the critic lack a common language with which to speak to one another, the critic simply lacks knowledge of the argument and the evidence marshaled in its favor. He is existing in a state of blissful ignorance of economics. One of my favorite economists, Murray Rothbard (1970), put the matter this way in a critique of the New Left economics of the late 1960s:

It is no crime to be ignorant of economics, which is, after all, a specialized discipline and one that most people consider to be a "dismal science." But it is totally irresponsible to have a loud and vociferous opinion on economic subjects while remaining in this state of ignorance.

There is indeed a science of economics, rather than just a series of mere opinions that can be contested with the opinions of sociologists, historians, political scientists, theologians, philosophers, and lawyers. But while Finn is to be applauded in at least trying to read the literature in economics in a charitable way, he runs into a real intellectual wall in this dialogue by not understanding the scientific component of economics and political economy.

Finn has written what is at one and the same a fascinating and frustrating book. Since the context of my essay is a symposium on his work in *Faith & Economics*, I will not provide the usual book review description of how his argument proceeds in the book. Finn's work is very well constructed and his argument (though ultimately flawed in my judgment) does follow in a logical fashion and he does (for the most part) provide a charitable reading to his intellectual opponents. The book ultimately is frustrating because Finn does not understand certain fundamental issues related to the science of economics and the use of the discipline of economic argumentation in the art of political economy. But rather than rehash his argument in full, I want to use the occasion to spell out the relationship between economics and political economy and how these disciplines engage the moral questions associated with social organization founded on the private property market order.

To put it very bluntly, economics and political economy, as such, cannot strictly speaking tell you whether or not profits are deserved or not, but

economics and political economy can tell you the consequences of your answer to that question. This ability to inform on the consequences of moral choices has profound implications for the reconstruction of moral theory along lines that will make it relevant for the real world of human interaction. Economics properly understood ties moral theory down and prevents it from becoming a free-floating abstraction.

My basic message is that political economy can aspire to be a value-relevant discipline only to the extent that the economics that under girds it, is practiced in as approximately value-neutral manner as is humanly possible. Economics, so practiced, serves as a tool of social criticism, though never as a vehicle for policy advocacy, and in so doing plays the vital role of putting parameters on utopian aspirations. In discussing these issues, I will follow Finn in focusing my discussion on the pro-market side to the discussion found in Milton Friedman, James Buchanan, and F. A. Hayek.

The Positive and the Normative in Economics and Political Economy

Economics and political economy has opened up to a wide variety of insights from other disciplines over the past decade and a half. There are many reasons for this, but in the field of political economy one of the primary reasons has to be the difficulties associated with the transition societies after the collapse of real-existing socialist regimes in East and Central Europe and the former Soviet Union, and the plight of underdevelopment that plagues both Latin America and Africa. The former socialist economies were characterized by inefficient production and consumer frustration. Shortages and poor quality of goods and services were the experience of everyday life. When the regimes collapsed and the transition was embarked upon in 1989, the original recipe for economic transition consisted of privatization and price liberalization. I refer to this stage as “Get the Prices Right.” It became apparent fairly quickly that the necessary price adjustments would not result in the required changes to economic life unless there were also changes in the institutional infrastructure of society. Alternative supply networks need to be allowed to arise through the elimination of barriers to entry, and property rights and contracts must be enforced by a rule of law. The policy mantra moved from “Getting the Prices Right” to “Getting the Institutions Right” by the mid 1990s. But as it became apparent that the establishment of the right institutions was a function of deep belief structures that reside in a people,

and the historical experience of a people. In short, culture matters. Figure out precisely how to “Get the Culture Right”, however is far more complicated than the relatively more straightforward questions of prices and institutions.

Grappling with this experience of post-communism, as well as the plight of underdevelopment, has forced economists and political economists to think seriously about the moral element in social systems of exchange and production. Finn’s core message that discourse in political economy must be framed in a manner where the political/legal, and social/cultural elements are aligned alongside of the economic/financial elements is well-taken, but also no longer a unique position.¹ The embedded nature of social cooperation through the market system is actually a point that has a long and distinguished history in the discipline of political economy from Hume and Smith to Hayek and Buchanan. It is important to distinguish, however, between the positive and normative analysis of this embedded nature, including in particular the discussion of the moral element in market interaction.

The positive analysis can be divided into an analytical proposition about norms and transaction costs, and then two empirical claims about the relationship between value systems and the market economy. In both the analytical and the empirical cases, the important point to stress is that moral theory is not relied upon to adjudicate the claims, but rather logic and evidence are sufficient for the act of adjudication. In other words, these are claims that can be assessed in an objective manner.

The analytical proposition can be stated as follows: there are basic moral prerequisites for a market economy to function effectively such that we can state that a free society will work best where the need for a policeman is least. The economic argument behind this proposition is that the internalizing of norms of respect for the property of others and honesty in

¹ This issue of the embedded nature of social interaction in economy, polity and society is a point that has permeated my own work for over a decade. For a summary statement see my paper with Virgil Storr, “Post-Classical Political Economy: Polity, Society and Economy in Weber, Mises and Hayek.” (Boettke and Storr, 2002). We do not claim any originality with regard to this thesis, but demonstrate that this has been the argument throughout the history of the Austrian tradition. The myth of atomistic individualism is particularly inappropriate when speaking of thinkers such as Ludwig von Mises and F. A. Hayek.

dealings will lower the transaction costs of realizing expanded trade among anonymous actors. In his *A Treatise on Human Nature*, David Hume argued that social cooperation depended critically on the institutions of property, contract and consent, and perhaps summed up the point best when he said, “The freedom and extent of human commerce depend entirely on a fidelity with regard to promises.” (1739, 546) Assessing this claim has little to do with our moral assessment of commerce or of promise-keeping, but with regard to the economic logic exploring the costs and benefits of transactions and how we come to engage in dealings with others through time and over great distance.

The empirical claims that emerge from this understanding of the foundations of social cooperation in a market economy can be summarized as follows:

- i. If it is the case that certain values are required for social cooperation through the market to yield generalized prosperity, then the formal rules of just conduct must be legitimated by the informal norms of just conduct otherwise the monitoring costs will be too high. The source of social order, in other words, is to be found in the informal norms and conventions. This ultimately relates to the debate between legal positivism (where the state is the source of law) and common law practice (where the law evolves and bubbles up from the conflict reducing practices of the people). Again, assessing this claim does not require an assessment by the analyst of the moral status of trade and commerce, what it does require is an empirical examination of attitudes and beliefs in a population and how those attitudes and beliefs sustain or undercut trade and commerce.
- ii. Certain market practices reinforce moral norms of civility, thrift, prudence, cooperation and honesty. Finn refers to this claim as the *doux commerce* thesis and it is associated with such writers as Montesquieu, Hume and Smith. The civilizing force of markets is a claim that is often forgotten in modern debate and thus unexamined in assessing the operation of the market economy. Again, this claim need not entail a moral assessment (though admittedly my use of the term civilizing is a loaded one). All that must be assessed is the empirical relationship between commerce and the reinforcement of the norms listed above.

The important point to make here is that these different claims are positive claims, not normative ones. I would summarize the claims of positive political economy emphasized so far with the following conjecture about social intercourse between men. Mankind has exhibited throughout history two natural proclivities: (a) to truck, barter and exchange, and (b) to rape, pillage and plunder. Human history attests to our tremendous capacity to yield to these proclivities, with the record revealing that the rape, pillage and plunder capacity may actually be the stronger of the two (especially when it comes to our dealings with “strangers”). The “rules of the game” that are in operation in any society determine which aspects of our human character will dominate in interactions. In settings where the rewards and penalties favor domination, we see rape, pillage and plunder emerge as the dominant means of interaction, but where the rewards and penalties favor voluntarism then truck, barter and exchange will emerge as the main vehicle for social cooperation.

Besides the issue of domination of others versus voluntary social cooperation, there is also the positive empirical claim about the impact of alternative institutional environments on economic growth and development. The system of social cooperation and the division of labor within a system of private property (voluntary social cooperation) turns out to yield greater economic growth and levels of development than alternative institutional arrangements (based on domination of others). In short, economic freedom and economic growth go hand in hand. And, I should add, when you look at other measures of well-being --- e.g., nutrition, sanitation, housing quality, literacy, female educational opportunities, etc. --- are all positively correlated with economic growth. None of this, as of yet, has required the analyst to take a moral stance on the claims being made. They are instead issues of logic and evidence, not of moral assessment.

Now there are profound issues of moral assessment that do arise as we move into the realm of normative political economy. First, as Finn points out, but Schumpeter pointed out long before in his *History of Economic Analysis*, there is a pre-analytic cognitive act that can be found at the core of economic analysis --- the vision that excites the mind of the analyst. As Finn puts the point, “in economics as in every science, the decision to investigate some issues and not others always entails a process of valuing that goes beyond empirical analysis.” (Finn, 78) But that does not mean that analysis is necessarily subjective and incommensurable. It just means, as Schumpeter argued, that there is a necessary pre-analytic cognitive act that excites our

mind, but that the scientific assessment proceeds on the grounds of assessing the analytical propositions and empirical claims being made and not exclusively on the moral assessment of the vision.²

Second, the concepts used in economics are no doubt embedded in a broader value-laden discourse tied to the meaning and use of language. The use of terms such as “voluntary exchange” or “free market” have moral connotations to them, as mentioned above when I used the term “civilized” in discussing the *doux commerce* thesis. Often times these terms are what must be contested, rather than just taken on-board without examination. But the critical point to emphasize is that when the terms are indeed contested, what are the terms and standards of that debate going to be? Admitting the terms necessarily have value connotations does not necessarily mean that in contesting those terms we must move away from the more objective standards of logic and evidence. “Voluntary exchange” has a moral connotation to it, but for the assessment we are concerned about we can return to the analytical propositions and empirical claims that flow from the use of that term by economists and not forestall assessment because the term voluntary is a contested one.

Third, there is no doubt a moral assessment that must be made over economic outcomes. The way economists have normally attempted to minimize the unwarranted imposition of values into the analysis is to move to a level of generalized agreement on “desired outcomes.” We all can agree that we want to live longer healthier lives, right? We all can agree that we want to eliminate poverty and squalor as much as we can, right? We all can agree that we want to have an economic system that promotes human flourishing, rather than human suffering, right? Now once we agree on this

² Michael Polanyi, one of the great philosophers of science, wrote in his essay “The Republic of Science” that scientific contributions will be assessed on the following criteria: (1) plausibility, (2) intrinsic interest to the community of scientists, and (3) originality. Obviously, there is a tension here between the first two and the third as the first two reinforce the existing status quo because the judgment of plausibility and intrinsic interest will be made from the perspective of the existing mainstream position, while the claim of originality means that new ground is being broken and the old way of thinking about things is being overturned. Polanyi is not making any sort of prescriptive or normative assessment of the scientific process, instead he is describing how in fact science is organized as a human endeavor and how it works. Judgments of value at one level are made constantly at the level of plausibility, intrinsic interest, and assessment of originality, but that doesn’t mean that the scientific process as a whole has no means of objective assessment and thus must abandon the idea of objectivity altogether.

end to be pursued (that we have broad consensus on), then the question is one of analytical and empirical assessment, not moral assessment. This is the utilitarian or consequentialist turn that economists and political economists take in assessing alternative institutional arrangements. This is a value-laden exercise no doubt, but keep in mind this issue of agreed ends, and analysis of means in relation to those ends, because we will come back to that issue in a moment to discuss the nature of economic argumentation.

Fourth, normative analysis is undoubtedly in operation with questions concerning welfare economics. Questions of equity, efficiency, and social justice are normative by their very nature and it is a mistake for economists to pretend that they are not. But once again, there are also positive claims that can be assessed with regard to these normative claims. To give one example, consider two claims about equity. Even if we claim that equity is about an egalitarian distribution of income, we must assess what an egalitarian distribution would entail, and also what would be the best way to achieve this distribution so defined.

John Rawls (1971) might argue that we should pursue policies that (a) maximize equal liberty, and (b) maximize the minimum position of the least advantaged in any society. How to instantiate these two principles of justice is a question of analytical and empirical analysis. It may very well be the case that the way to achieve both (a) and (b) is to unleash the creative powers of the market economy. Movement between income groups through time may provide a better measure of equity than a snapshot in time of income discrepancies. The least advantaged in society may be better served through economic growth, then through programs of income distribution that distort incentives. As Milton Friedman argued, all boats rise in a rising tide. The poor in a rich country today often live much better than the King in a poor country a century ago. Life expectancy, nutrition, health services, schooling, etc. are all positively correlated with economic growth as mentioned before. In short, the normative claims about welfare possess within them positive claims that can be analytically and empirically assessed. If we don't recognize this, Finn's hope for a "common conversation" will devolve into an opinion-fest in which claims of justice are not independently assessed and constrained by scientific discipline. Flights of moral imagination and catering to political interests will define moral discourse on economic life and the "common conversation" will accomplish nothing except to please those who cannot accept that sad reality that we live in a world of scarcity and utopia is not an option. The economist and

political economists, at their best, possess a soft heart, but a hard head. They are deeply compassionate toward the poor and the least advantaged, but they think long and hard about the issues of endowments and structural incentives. Critics often accuse the economist of possess a hard heart. But the worst combination of all would be to have a hard heart and a soft head, followed only by those that have a soft heart and a soft head.

So how precisely is it that an economist can pursue this soft heart, hard head agenda? I want to argue that political economy can become a value-relevant discipline only to the extent that economics approximates value-neutrality. To accomplish this, the economist must take a radical subjectivist stance with regard to ends, so as to aspire to an objective analysis of the relationship between means and ends. It is a rhetorical strategy in debate (as I alluded to above) no doubt, but it is a rhetorical strategy that is not merely rhetorical. Economic analysis looks at incentives and information flows within the system of exchange and production and how the structure of incentives and the flow of information guide economic actors within the system in their choices of various means to obtain ends. The economist as such has no stake in what ends are pursued, just in the assessment of the effectiveness of the means chosen to the ends sought. In relation to the analytical understanding of the market economy, this analysis of means/ends enables the economist to see how individuals learn through time how best to achieve their goals and to make the necessary adjustments to their behavior to better realize those goals. In the analysis of public policy, the economist is able to see how effective various policies are (as they impact incentives and information) in achieving the stated ends of the policy pursued. Rent controls are introduced to provide low cost housing to the city's poor. But due to the incentives of the system, a shortage of housing units results and many of the intended beneficiaries to the system find themselves without housing. Rent control, in other words, is an ineffective means to obtain the end of low cost housing. This is counter-intuitive, but it is this sort of analysis that results in the economist and the political economist to have that soft heart, but hard head. But note two things about this approximate value-neutral analysis: (1) it does not require a moral assessment to determine logical soundness or the empirical validity; and (2) it passes what could be termed the "devil test". (see Boettke 1998) A devil and an angel could agree on the logical soundness and the empirical validity of the claim about rent controls and the impact on housing units in the city. The devil will want to harm the least advantaged in society and in pursuing that goal will use the economic analysis of rent-control and then advocate for the establishment of

rent-controls. Alternatively, the angel wants to help the least advantage and upon absorbing the lesson of the economic analysis of rent-controls will agitate for the abolition of rent-controls. Both the devil and the angel can equally utilize the teachings of “means-ends” economic analysis to equal effect to pursue their goals of either harming or helping the least advantage in society. That is a pretty powerful tool of social criticism, and economics is actually in a unique position in that regard in the social sciences.

James Buchanan has probably done more to bring back political economy into the mainstream of economic thinking than any other thinker. Buchanan has a very interesting perspective on this question of moral theorizing that Finn only alludes to in his work. Buchanan distinguishes between the pre- and post-constitutional levels of analysis. During the pre-constitutional level we are attempting to define the rules of the game under which political and economic actors will play, while during the post-constitutional level are analysis is confined to the examination of the alternative strategies that the players will choose in playing the game so defined by the rules agreed to. Buchanan has a particular project in constitutional political economy in mind when he sets up this framework, and I will turn to that in the next section dealing with Finn’s work more directly. But for the purposes of the examination of moral philosophy, social philosophy and the place of political economy in these disciplines let me suggest a slight reconfiguration of Buchanan’s pre- and post-constitutional framework.

Consider the pre-constitutional level as the domain of moral and social philosophy. The questions at this stage of analysis are one such as “what is the good life”, “what would constitute a good game of life”, “what are the appropriate rules for that game.” Philosophical speculation would yield answers to these and other questions and they would be operationalized into the rule structure of the social order.

Economic analysis with its focus on incentives and information and means/ends analysis would constitute the post-constitutional level of analysis. Given the philosopher’s answer to the questions of the “good life”, “good game”, “good rules”, the economist will be able to examine the strategies that will most likely be chosen. The rules structure the incentives that the actors face in making their choices, and create the expectations that actors hold which guide their actions.

And herein lies the rub --- questions of the good life cannot adequately be answered unless you take into account the likely strategies that players will choose. Rules that are good in a dream, but produce an array of strategies which result in undesirable outcomes are not good rules.

Political economy is born out of this tacking back and forth between moral philosophy and economic analysis. This is how political economy becomes a very real value-relevant discipline out of the approximate value-neutrality of economics.

What Does Finn Get Right, Where Does Finn Go Wrong

As I said Daniel Finn has written a very fascinating and frustrating book. It is fascinating because he wants to talk about this idea of the moral ecology of markets and in addressing the embedded nature of polity, society, economy, Finn wants to advance the conversation on the assessment of the market society. This is all well and good and he should be applauded for his effort. But the critical flaw in his work is that he doesn't believe there is a science of economics that is independent of moral assessments. In short, economics cannot serve as a tool of adjudication between alternative institutional arrangements. Thus, with Finn we get a narrative of the debate over the moral assessment of the market without the central character being given his due; we get instead Hamlet without the Prince.

Finn states that we must note "the error of Friedrich Hayek's belief, shared by many others, that "the demonstration of the difference between socialists and non-socialists ultimately rests on purely intellectual issues capable of a scientific resolution and not in different judgments of value." On the contrary, only when a moral judgment is joined to an empirical assessment can the competing claims about alternative economic systems be adjudicated --- or even understood." (Finn, 105) This statement sums up all that is wrong with Finn's work. None of the arguments that I gave above about the role of economic argument as a tool of social critique have sunk in, and as a result in his assessment of the claims of Friedman, Hayek and Buchanan he misses what they are arguing and the force of that argument. Instead, we are assured that the likes of Michael Walzer and Judith Shklar (well-known scholars no doubt) disagree with the economic argument and insist instead that justice can be served without distorting incentives and responding to democratic political demands. But if the economic argument is not engaged,

then the possibility of unintended undesirable consequences (from the point of view of the initiator of the policy for social justice) is not recognized. Walzer and Skhlar (and presumably Finn) are completely innocent of the problem of unintended consequences. Without an understanding of the problem of unintended consequences, the empirical failure of socialism in all its varieties (in the former Soviet Bloc, or Latin America, or Africa) and the empirical frustration with interventionism (in Western countries) will remain off the table of our “common conversation.” But without these significant experiences to draw on what good is the conversation? As with the story that I began this essay with, sometimes the party to the conversation simply doesn’t have the background or skill to add much of value to the conversation and thus should either study more or refrain from comment until more is learned on the issues at hand. To assert claims of social justice without examining the impact that will be had on the choices of individuals (by structuring incentives and influencing the flow of information) is intellectually irresponsible no matter if the irresponsibility is being committed by an elected politician or a leading academic. Peter Berger (1976) long ago in *The Pyramids of Sacrifice* pointed out that the development analyst has a moral responsibility that should not be taken lightly since the work he/she is doing will impact the lives of thousands perhaps millions of individuals. Idle philosophic speculation is one thing, arguments that are utilized for social change are quite another.

Before I conclude I do think it is important to address something about the reading that Finn provides of Friedman, Buchanan and Hayek. I do think he has chosen the right individuals to emphasize in his work (along with Nozick who also gets plenty of due in Finn’s account). But he is also trying to fit them into a common group that provides the argument for the free market. There should be no doubt that many issues unite these three great economists and political economists. They are the leading representatives of classical liberalism in 20th thought. But there are subtle and profound differences between them as well and in particular the use to which they put different arguments. Finn largely misses this.

Let me just concentrate on one example – the self-interest assumption --- to show how Friedman, Buchanan, and Hayek work with self-interest differently and for different purposes. Since this is such a core idea in Finn’s work, and also a core idea in these respective thinkers work, the fact that Finn doesn’t quite get it right should raise questions about even more

subtle discussions in these authors concerning the nature of markets and their assessment.

Friedman deploys a strict interpretation of maximizing behavior and the pursuit of self-interest as an “as if” proposition that has strong predictive power. He is not arguing that individuals would actually possess a self-understanding of the pursuit of self-interest, nor are they in actual practice imbued with the cognitive capacity to maximize their utility with flawless precision. But as a tool for prediction in the social sciences, the assumptions of maximizing behavior and the pursuit of self-interest are very useful and, Friedman would content, accurate. It is the Friedman use of self-interest that most critics want to go after, but they often times fail to appreciate the instrumental use to which he is using the assumption. Moreover, they would need to address the predictive accuracy of the claim as it relates to being an engine of scientific inquiry in economic analysis of markets, law, government, and public policy.

Buchanan uses the self-interested assumption for a totally different purpose than Friedman in his analysis of constitutional political economy. Most critics attempt to go after Buchanan’s claim about self-interested behavior by actors in the political context and insist that this is descriptively inaccurate. But Buchanan’s main contributions to political economy were not in the area of descriptive analysis of politics, it was instead an examination of the organizational logic of constitutional democracy. The insistence of behavioral symmetry is a methodological tool to assure that romantic notions of politics (by the way the sort of notions of politics held on to dearly by Walzer and Sklar) are rejected and a more realistic notion of politics is put in its place. If Friedman is utilizing the self-interest assumption for the purpose of generating testable hypothesis about market interaction, Buchanan deploys the assumption for the analytical purpose of building robust political structures. In addressing constitutional structure, Buchanan follows Hume in presuming that we must proceed as if “all men are knaves”.

The Rawlsian veil of ignorance move, that Buchanan makes is also not a descriptive move, but one conducted to attempt to get out of the trap that knavish men cannot write a constitution to bind the knavish behavior of men. By putting the rule writing behind a veil of ignorance (in which none of us know where we will end up on the spectrum of societies distribution of virtues and talents), we will generate rules of the game that will approximate

neutrality. Rules will not be designed to favor a special few, but instead to pass a generality norm. Furthermore, they will approximate Wicksellian unanimity. The constitutional constraints established will be in place to prevent the breakdown of the social order into a race for special privilege in which the knaves gain the advantage. Buchanan's exercise, in other words, is really a modern restatement of the challenge that Madison put forth during the founding period of the United States, to paraphrase – if men were angels there would be no need for government, and if government were run by angels there would be no need for constraints, but precisely because men are going to rule over other men, we must build a political structure that will empower government and then constrain it. Buchanan's use of self-interest as an analytical assumption to build against the rule of knaves is completely lost in Finn's analysis.

Hayek's argument, Finn does note, is very different from either of these two --- though Hayek does recognize this issue of robust political economy alla Buchanan (from Smith and Hume) very strongly in his work as well. (see Boettke and Leeson 2004) On the self-interest assumption, Hayek is really just following Adam Smith on this. Smith argues three things with regard to self-interest. First, in dealing with others in the market place, and in particular those who are not intimate friends, we cannot rely on their benevolence towards us to acquire the goods and services needed for our daily survival, but must appeal instead to their self-love. Second, Smith argues that the individual in his local situation is in a much better position to judge what is the best use of his time and resources than some magistrate from afar. In fact, Smith argues that decision power would nowhere be as dangerous as in the hands of a man who had the arrogance to demand that he make decisions for others. Third, Smith argued that our span of our moral sympathy can only stretch so far in dealing with anonymous others, yet in our day to day lives we require the products of the division of labor which must mobilize the talents and skills of thousands of strangers to work in cooperation with one another.

Hayek's ignorance defense of self-interest, as Finn puts it, is grounded in these three Smithian arguments. Smith's critique of the man of systems in *The Theory of Moral Sentiments* and the limited span of our moral sympathy, as well as his celebrated passages from *The Wealth of Nations* on self-love and the invisible hand, all form the core of Hayek's argument. But it is probably important to stress, that in Hayek (as in Smith) the manifestation of self-interest in the form of efficient production and prudent

decision making is a by-product of an institutionalized context. Self-interest does not everywhere and always result in socially desirable outcomes. Classic examples in Smith would include the difference in teaching approaches at Oxford and in Scotland. At Oxford the teachers were paid a yearly stipend no matter if they taught or not, so they didn't teach. But in Scotland, the teachers were paid fees by the students based on their teaching, they taught and worked to perfect the craft of teaching. Similarly, Smith contrasts the benefits of competition in religion (in terms of dynamic sermons and thus attendance) with state monopoly in religion (with boring and routine sermons and low attendance). Smith, who valued religion, viewed competition as good for the flourishing of religious belief, but Hume, who despised religion, thought competition was bad and that state sponsored monopolies were desirable because they would eventually drive religious influence to zero. Note that Hume and Smith just provide another example of the devil and the angel test that I talked about above.

Another example of how self-interest manifests itself depending on the institutional context of decisions would be the difference between what economists refer to as "invisible hand" stories and "tragedy of the commons" stories. In invisible hand stories, the pursuit of self-interest results in publicly desirable outcomes, but in tragedy of the commons situations, the same pursuit of self-interest will result in publicly undesirable outcomes. To economists and political economists such as Smith and Hayek understanding the institutional reasons why these alternative results emerge lies at the heart of what the discipline is all about. The birth of political economy, one could reasonably argue, is in this assessment of alternative institutional arrangements and in particular on how alternative institutional arrangements results in differentials with regard to the wealth and poverty of nations. Moral assessment is not needed, economic assessment of comparative institutions is to answer that question. Hayek was the heir apparent of Adam Smith on this question in the 20th century, but because Finn cannot see through to the core analytical and empirical argument provided he cannot see how the conversation has been resolved on some issues and thus ways we must go forward from that starting point if we hope to make progress.

One final reference point, Finn (and readers of his book) should consult Vernon Smith's Nobel Prize address which contrasts "ecological rationality" with "constructivist rationality." (Smith 2003) Smith goes as great pains to show the intellectual connection to "ecological rationality" that can be found

in Hume, Smith and Hayek, and also to show how his work in experimental economics by examining the importance of context in human choice has highlighted the arguments from Hume, Smith and Hayek. Finn's book was published in 2006, in seeming ignorance of Smith's discussion of the ecology of the economic system. If he had been aware of it, perhaps he would have seen how the position held by Hayek on the scientific assessment (grounded as it is in this point about the ecology of the economic system) between capitalism and socialism is not in error, but the fundamental building block of any meaningful conversation that could take place on the justice of social systems and the moral philosophy of human flourishing.

Conclusion

I have been harsh in this discussion, perhaps too harsh at time, because one must admit that Daniel Finn's *The Moral Ecology of Markets* makes many interesting and important points and deserves a wide readership. The book addresses "big" questions and should be applauded for doing so. But it is also an extremely frustrating work for anyone who has devoted time and energy to engaging the debate over economics systems. By denying the scientific resolution of the debates, Finn merely seeks to perpetuate an on-going dialogue. He does provide a useful framework on which to construct the common conversation about the political economy of the "good society". But each of the constituent parts of his construction (allocation, distribution, scale, and quality of relations) are not questions that are ultimately resolvable by discourse in a common conversation, but instead reflect analytical and empirical claims that must be assessed with perhaps a soft heart, but definitely a hard head (if you want to really serve effectively the purposes of the soft heart). There is no better tool available to us than that of economic argument. It is only by utilizing the approximate value-neutral analysis economic science that we can hope to aspire to real value-relevant political economy that will help this common conversation move forward rather than endlessly spinning its wheels.

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