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Just Markets Transcript

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One of the striking things about the Christian response to the contemporary role of the market economy is that this response is frequently, indeed predominantly, focused on the issue of justice or, to be more precise, social justice. The failure of markets to secure social justice has, in the view of many of its religious critics, been the major moral defect of the market economy. In this lecture I want to focus attention on the idea of social justice and discuss the cogency of the Christian critique of the market economy in terms of this idea. As we shall see the idea of social or distributive justice is very far from being regarded as an important or even a coherent idea by many of the most sophisticated defenders of market economics. Indeed Friedrich von Hayek the Nobel Prize Winning economist and one of the best known defenders of the centrality of the role of the economic market published a book with the title "The Mirage of Social Justice".

So first of all I will look at the arguments against the idea of social or distributive justice which, if they work as their proponents think that they do, would directly undermine this central strand in the Christian critique of market economics.

Let us take first the critique as expounded by Hayek because in modern times this has been the most influential. His argument against social justice is directed against the claim that a market, left to its own devices would produce an unjust distribution of income and wealth, assets and resources and that therefore the state has a central role to play in securing a just distribution of goods - that is to say to secure social justice. Underlying this role for the state is the idea that a commitment to social justice reflects a collective obligation to alter the outcomes of a free market if they do not meet whatever are taken to be the standards of social justice.

Hayek argues first of all that justice and injustice can only be caused by individual intentional action. Things that happen to people as the result of impersonal forces such as the weather or the genetic lottery are neither just nor unjust -they result rather in bad luck or good luck. If it rains on my cabbage patch and my cabbages flourish then that is good luck; if yours are burnt up by the sun that is bad luck. You have not suffered an injustice but rather a misfortune. This claim has a political edge to it in that while in a liberal society we might well think that the state has a duty to rectify injustice, it doesn't have such a duty in respect of misfortune. Luck and bad luck are pervasive features of human life and any attempt to take people off the wheel of fortune would lay an irrationally large obligation on the state. There is also a political rub in respect of disasters caused by climactic events. Again these are not injustices but severe forms of misfortune. They are not injustices because they are not the result of intentional action. There are several issues raised by these claims but let us stick with looking at the consequences of the idea that injustice can only be caused by intentional action.

In a market each individual act of exchange is no doubt an intentional process but the aggregate effect of all these individual acts of exchange - the distribution of income and wealth arising out of exchanges is an unintended consequence of free exchange. As an unintended consequence this distribution of income and wealth is not and cannot be a case of injustice just because of the absence of intention. Indeed we are misled by talk of a distribution of income and wealth because the word distribution seems to imply the idea of a distributor but there is no distributor and no intentional process lying behind the "distribution"

So those lying at the bottom of the scales of income and wealth do not suffer an injustice in a free market. Poverty is not an injustice. The only way in which justice and injustice come into the picture is in the context of each individual act of exchange. If I coerce you into an exchange, if I defraud you in such and exchange, if I fail to deliver on my side of the bargain then these are injustices because they are intentional actions and there is law to deal with such injustices. So individual acts of exchange which make me worse off can be rectified by means of the law. There is no place for rectification in terms of the outcomes of markets as a whole because they are not unjust because they are not intended.

This critique of the idea of social justice is allied to a further very important point. In Hayek's view the idea or ideal of social justice is almost wholly indefinite and to be of any use even assuming that there would be a case for it the ideal needs to be made more specific. But there is an insoluble problem here. There are a number of principles which can represent themselves as principles of social justice. So for example income and wealth could be distributed according to:

need
desert
equality
entitlement
contribution
ownership

Each of these can be seen as individually defensible criteria for distribution but they are mutually exclusive and would lead to radically different distributive outcomes. For Hayek there is no way of reconciling such values or arriving at some kind of authoritative determination of which distributive principle is to be taken as fundamental. Nor is there a way of ranking these values in some kind of authoritative way. The moral diversity and pluralism in modern society makes it impossible to arrive at these authoritative determinations. Merely to invoke social justice without attending to the irresolvable diversity of particular distributive principles makes the pursuit of social justice a mirage in Hayek's formulation.

These arguments can be put in a general way. Social justice is what can be called an end state principle which involves comparing the distribution of income and wealth at any point with the preferred distributive principle. The alternative- recommended by Hayek is to see justice in process terms. That is to say at the level of each transaction that transaction is just if it is entered into and completed in a non coercive way. If each transaction is completed in a non coercive way then the outcome is legitimate. The legitimacy of the outcome depends on the non coercive transactions which have gone to constitute the it. It is this that makes the outcomes of a free market legitimate not whether the outcome matches some sort misconceived principle of social justice. In the same way as the outcome of a game is fair if each move in the game has been made in accordance with the rules, the outcomes of a market are fair if they reflect a non coercive process. In this sense this understanding of justice is backward looking - it is concerned with how an outcome came about not whether or not it conforms to some preferred distributive pattern. In this sense Fred Hirsch late professor of economics at Warwick University was right when he said that market outcomes are in principle unprincipled.

All of this is also important for understanding the issue of poverty in relation to markets. This is particularly important for Christian social and political thought which in the past generation has emphasised the option for the poor as being crucial to Christian social thought. From the point of view the defender of social justice there is an intimate link between poverty and the defence of the ideal of social justice. Social justice is about the relative position of individuals and groups within a distribution of resources. So from the social justice perspective the aim of public policy should be improving the relative position of the worst off members of society while maintaining the

absolute position of the better off. The effect of this will be to diminish inequality in society and improve the relative position of the worst off. The alternative view espoused by Hayek is that rather than linking the relief of poverty to the illusory demands of social justice we should concentrate on the absolute position of the worst off. The question which should animate the poor person is not what is the gap between me and better off groups in society but rather am I better off this year than last year on my own terms – that is to say has my absolute position been improved. Social justice is concerned with the relative position of the poor; the more market oriented Hayek position is that what needs to be improved is the absolute position of the worst off, not their relative position. On this view it is quite possible and indeed it might be quite desirable for inequality to grow between the worst off and better off members of society. The absolute position of the poor is best dealt with via the trickle down effect - that what the rich consume today will, through normal market mechanisms become available to the poor over time. To achieve this a dynamic economy is essential and this is why it may be that the relative position of the poor may decline because it may be necessary for substantial incentives to be paid in order to improve the incentives which will have to be paid in order to increase the dynamism of the economy. So in thinking about the Christian option for the poor we need to understand whether an absolute or a relative standard is being cited. If the former then the argument from the pro market position will be that the absolute position of the poor will be increased in real or absolute terms by the trickle down effect of the market; if however the argument is about the relative position of the worst off then the outcomes of markets have to be moderated because trickle down effects are not likely to alter the inequalities which naturally arise in a free market economy. The Churches must wrestle with these ideas if their concern for the poor is to make any impression on arguments about political economy.

So what can we say so far about the economic liberal argument about the illusory nature of social justice.

First of all let us take the argument that injustice can only be caused by intentional action. Other bad situations not caused by intentional actions are forms of misfortune or bad luck which do not generate collective or individual responsibility. Let us assume that this argument is correct there is still a very substantial issue at stake. In general we can be held responsible for the unintended but reasonably foreseeable consequences of our actions. How does this point relate to markets?

If the outcomes of markets are reasonably foreseeable even though not intentional this would be enough to reinstate the idea of a collective obligation for all of those who act in markets to be concerned about the overall outcome of such markets. So are market outcomes foreseeable? It would be very odd for defenders of the market to say that they are not because to do so would be to deprive themselves of some of the strongest arguments in favour of markets. What can be the basis for extending markets for example in the public sector unless the claim rests upon the idea of the beneficial and this foreseeable outcomes of markets. So for example there are arguments about efficiency – that markets will be more efficient than the state; that markets will improve the absolute position of the worst off; that markets will create an increase in supply of goods –so for example the claim that a freer market in private rented accommodation will lead to an increase in supply of such accommodation. All of these claims may be true but you can't make these claims unless the outcomes of markets are reasonably foreseeable. In these circumstances then the issue of justice is not settled by referring to intention only but rather that the foreseeable outcomes of markets can ground what I have called the collective obligation to have regard to the outcomes of markets.

The second issue is whether looking back over a series of transactions to determine whether they are or are not intended or for that matter foreseen settles the issue of justice. On this view justice is concerned with how something came about and that the question of justice can be settled only in this way and not in terms of understanding the situation as it is not how it came about. But is this true?

Take the following counter example from Amartya Sen. Imagine that there is a very heavy rainstorm(a non intentional event) and a young toddler is blown headfirst into a gutter full of water and is likely to drown. I am walking past this young child and I can easily rescue the child at little or no cost to myself. But I walk on by. Is the issue of the justice (or in the Christian tradition the righteousness of my action) to be determined by an examination of how the situation came about giving due weight to what is intentional and what is unintended or rather is justice to be found not in how the situation came about so much as my reaction to the situation as it confronts me. If it is the latter then justice and injustice resides in our responses not in an historical account of how a situation arose . I think that Sen's example and our reactions to that tend to favour the idea that justice resides in our response to a situation not in its history. Even if there is some history to be told about how the child ended up being alone in the street I don't think that would alter our perception about my act of injustice towards the child.

This goes quite to the heart of our mutual obligations as citizens. If we have positive obligations to one another founded on justice then this could provide not only a concern with distributive justice but also would provide a foundation for good Samaritan laws as is the case in many continental jurisdictions.

So my own view is that the question of justice and injustice is not to be settled by an appeal to the unintended and unforeseeable nature of market transactions.

The second big issue is about distributive justice and moral pluralism –that is to say the lack of agreement on criteria for distributive justice whether for example it is a matter of desert or need. One obvious answer to this would be to say that it should be put to a democratic vote and those policies towards say the worst off should be shaped by whether the majority favoured policies inspired by the relief of need or whether there would be a majority for a much more desert oriented account of justice which might well be far less sympathetic to the worst off. Many economic liberals would reject this because in their view voters vote on the basis of their rational self interest. This is likely to mean that a majority would favour needs based, welfare expenditure which would give some kind of safety net for all. A desert based view of justice may not command so much allegiance on the basis of rational self interest because how desert might shape policy may not be very predictable and that rational self interest might lead me to favour a needs based approach. This is even more likely when large numbers of electors might well vote in such a way as to transfer the costs of their choice onto others. If I pay little or no tax I might vote for a pattern of distribution which improves my position by lowering yours by requiring you to pay more tax.

It is worth pursuing the idea of self interest a bit further since it has been central to some defences of the market. The idea here is that like everyone else I will act to maximise my self interest or my utility and in the view of some market theorists this also has a big impact on distributive justice. This is so for three reasons.

The first is fairly obvious – namely if I am motivated by self interest then I am not likely to accept a framework of political morality which has a concern for social justice at its heart. Why as a person motivated by self interest feel a moral obligation to be concerned about social justice and the situation of the poor.

The second is that the argument about self interest applies across the board and not just to those engaged in markets. It applies also to the public sector – civil servants are not disinterested servants of the public good and animated by a public service ethic. Rather they pursue utility maximising strategies within the public sector by increasing the scope of their responsibilities, the size of their bureaux, the size of their salaries and favourable conditions of work and retirement. This is important in the view of what have been called public choice critics of bureaucracy because a state based on the centrality of the idea of social justice would have to have a substantial bureaucracy to administer distributive justice in such a state. In such a state, bureaucracy will have a central role but there will be a substantial cost to this both in financial terms since such a state bureaucracy will grow because of bureaucratic self interest but there will be other costs too in terms of the idea of the rule of law. On this point it becomes impossible to write rules of law to cover and make accountable all distributive rules within the welfare state based on social justice. This will mean that bureaucrats running the welfare state will have a great deal on non rule governed discretion which in turn will be influenced by the self interest of bureaucrats. This means that at the heart

of the welfare state there will be a great deal of unaccountable power and a great number of people dependent on how that power is exercised which cannot be made accountable to rules of law. This, in the view of critics is the dark side of a commitment to social justice.

The third issue relating to self interest is that if the state takes on the responsibility of distributing resources according to social justice in the absence of agreed criteria for just distribution then there will be a growth of interest groups in society which will look to increase their share of whatever the state is distributing – and this is a case of rational self interest. Also there will develop coalitions of interest groups to use their power to secure from government whatever their distributive share they think is rightfully theirs. In these circumstances the state will fall victim to coalitions of interest groups. In such circumstances the poor are very likely to miss out since they are unlikely to be part of powerful coalitions of interest groups. On this view, rather than the principle of social justice being some kind of noble ideal in terms of which to argue for the reshaping of the distribution of income and wealth thrown up by the market, it is rather a kind of fig leaf behind which there is an unprincipled struggle for resources in the context of which the worst off are likely to come off worst!

Again the Churches need to confront this critique and as we can see self interest plays a major role. In a later lecture on Trust in Markets I will talk more about this but it does raise two very important questions namely: what is the relationship between a commitment to social justice and the public sector? and how are we to understand the nature of the public sector in the sense of whether there is in fact an ethic of service which permeates it and constrains self interested behaviour or whether it is dominated as in the view of critics all of human nature is by a concern to maximise self interest.

On this last point faith groups are being involved in reforms to the welfare state which rather assume the truth of a good deal of this critique. This is so in several ways. The Government and the previous government were very keen to break up the monopoly of state funded and state provided services in favour of a policy in which the state would fund a wide range of different providers including faith based charities and faith based public or social enterprise companies. This would have several advantages in the view of critics. First the different providers would create at least a degree of choice for clients of state services delivered in this way and this would decrease dependency on one monopoly supplier. Secondly these providers would be in competition with one another for state contracts and this which holds up the possibility of bankruptcy in the light of failure to discharge properly and at cost the requirement of the contract for the service would in fact constrain self interested behaviour far more effectively than an appeal to an illusory public service ethic.

In the last part of the lecture I shall look at some of the general criticism which can be made of this sort of approach and some of the issues for the Churches. The main point though is that the economic liberal critique of the idea of social justice is fundamental and the churches need to understand this not just at a theoretical level but also in terms of its practical implications for the delivery of services which for two generations have been seen as an integral part of social justice.