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Cover Page Footnote
I would like to thank David Reidy, Jon Garthoff, and especially Jon Shefner for their continued assistance of my studies in political economy and political philosophy. I would also like to thank my friends and family for their unconditional support.

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Fair & Laissez-Faire Markets: From a laissez-faire baseline to a fair market conception

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The essay begins with a brief overview of the role of the neoliberal conception of the laissez-faire market in modern political economy. The essay then goes on to defend three claims: 1) the laissez-faire version of a market should not be considered the economic ideal or baseline version of a market because often the fundamental conditions required to reach a genuine equilibrium are unfulfilled under a laissez-faire environment, 2) a distribution resultant from a laissez-faire market should not be considered the ultima facie just distributive baseline because an unregulated market may allocate commodities according to morally arbitrary factors and requires social and state support and 3) under a fair market iteration of a market government intervention and state programs may be pursued in order to fulfill the fundamental conditions of a market so as to reach a genuine equilibrium and to address other fundamental social aims and moral concerns, such as distributive justice. While these claims involve the operation of markets generally, special attention is paid to the labor market as a key example.

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Introduction

In this essay, I defend three claims: 1) the laissez-faire version of a market should not be considered the economic ideal or baseline version of a market, because often the fundamental conditions required to reach a competitive equilibrium are unfulfilled under a laissez-faire environment, 2) a distribution resultant from a laissez-faire market should not be considered the ultima facie just distributive baseline, because an unregulated market may distribute commodities according to morally arbitrary factors, such as natural talent and social position, and requires government support, and 3) under a fair market structure of a market, as I conceive of it, government intervention and state programs may be pursued—from an economic perspective—in order to fulfill the fundamental conditions of a market so as to reach a competitive equilibrium, and—from a moral perspective—to address other fundamental social aims and moral concerns, such as distributive justice. While these claims involve the operation of markets generally, special attention is paid to the labor market as a key example.
In the first sections of the essay I argue that the laissez-faire structure of a market should not be the economic baseline by which all market arrangements are judged. From a pure economic analysis, the allure of a market is its ability to reach general competitive equilibrium, which theoretically yields a pareto optimal allocation. A competitive equilibrium requires four principal conditions: 1) perfect competition in terms of market power, 2) perfect and symmetric information, 3) perfectly rational actors, and 4) no externalities and no public goods. Because markets may require state programs—which are considered impure by the laissez-faire account—to fulfill these crucial conditions and thus reach a competitive equilibrium, the laissez-faire market should not be considered the economic “ideal” or baseline. Indeed, from an economic perspective the “ideal” market is that which clears at competitive equilibrium, which evidence suggests often isn’t the case for the laissez-faire structure. The key point is that, moral considerations aside, there is a theoretical economic argument in favor of particular “intervention” in the laissez-faire market: the fundamental conditions required to reach a point of competitive pareto optimal equilibrium may require state “intervention.” A laissez-faire market for labor, for example, is often far from fulfilling perfect competition because firms have much greater bargaining power than laborers. The resulting equilibrium price, or income, driven down by the superior bargaining power of firms is far from reflecting perfect competition in terms of market power, a condition many economists believe is necessary to reach a competitive equilibrium.

Second, I argue that a laissez-faire structure of the market should not be the moral distributive baseline by which other arrangements or programs are assessed. It is often argued that the distribution of income delivered by a laissez-faire labor market, for example, is a distributive baseline that is perfectly just, such that programs that alter this initial laissez-faire distribution infringe on the “correct” distribution. I contend that we can identify a thin consequentialist argument of minimal benevolence for pareto optimal allocations, ceteris paribus, as well as a thin rights-based argument for personal property and (restricted) exchange in a market. This moral foundation of a market does not hold, however, that consequences resulting from a laissez-faire market are perfectly just or that other moral considerations may never be required to alter such outcomes. Drawing on Rawls, Nagel, and Murphy, I contend that because the distribution of goods and services—including income—under a laissez-faire market depends on a variety of morally arbitrary factors (natural talent, initial social position, etc.) and the market requires a property scheme and a conducive business environment provided by the government, the distribution resultant from a laissez-faire market is not an ultima facie moral baseline. Markets might be structured to account for morally arbitrary factors, and taxes might be levied to assist in remedying grave inequality, for example. The allocation delivered under a laissez-faire market must be morally assessed in light of the larger social, legal, and state system on which it necessarily depends. An untouched laissez-faire distribution is morally reinforced only when all other things are equal, which is often not the case in reality.

I also present two arguments from economic anthropologist Karl Polanyi. The first is a simple but oft violated point that any market (including a laissez-faire market) must be treated as a means to more fundamental ends, not as an end in itself. Thus, a laissez-faire market must answer to deeper and more fundamental social or moral ends, because a market is useful by virtue of its fulfilling specific societal (limited) roles. A market’s need and justification are found externally and so a market cannot answer to internal aims or rules alone. The second argument consists of two parts. The first is a moral argument that some things, such as labor power, should not be treated like “commodities” and left to the self-regulation of a laissez-faire market. The second is an anthropological argument that a society simply cannot treat some specific things as commodities—labor, land, etc., the reason being that a market for these things will fail or other disastrous consequences are bound to occur and the state will be left to pick up the pieces.

I’m certainly not the first to provide a critical assessment of the laissez-faire market. As some of the most revered political scientists, economists, philosophers, sociologists, and
anthropologists have done work on the topic, I approach the subject dialectically. After extracting the core of the critiques of a handful of thinkers, I weave these discrete arguments into a fairly comprehensive, though not altogether exhaustive, critique of the laissez-faire market.

In the final section of the essay I attempt to present the general framework of an alternative market structure to the laissez-faire market. Rejecting the laissez-faire market as a baseline is no reason to reject the market altogether. I lay out a sketch of what I call the fair market: a market structure that a) takes a competitive market as the economic standard, such that intervention may be pursued in an effort to establish the conditions fundamental for general competitive equilibrium and thus pareto efficiency, and b) is governed by principles that emphasize additional moral and social considerations. Of utmost importance is that a fair market is understood as a means to more fundamental ends: market ends should not be treated as ends in themselves. Society must not necessarily treat all things—for example, labor—as a commodity, and market activity must be understood as a joint (not atomistic) activity that should reap mutual advantage. Though the fair market conception draws some interesting distinctions from the laissez-faire approach, it is only a general starting point.

**Neoliberalism and the Laissez-Faire Baseline**

The market—a collection of persons exchanging goods and/or services for mutual advantage—has become a fundamental, if not the fundamental, force in shaping the global political economy. Class and state have not lost all relevance, but for some time now the market has played a particularly significant role in shaping the global political economic landscape.

Since the 1970s neoliberalism—an ideology committed to, among other things, the proliferation of unfettered markets and championed most famously by leaders such as Reagan and Thatcher—has grown increasingly popular globally as a political economic doctrine, particularly among groups such as the US “Tea Party” movement. Notions of the laissez-faire market are at least as old as Adam Smith, but the global prevalence of the ideology today is unprecedented. More specifically, the tenet of the neoliberal paradigm that places extreme priority on the laissez-faire market has garnered unprecedented support among those who shape public policy in the United States (and the international financial institutions).

When asked what policy should be taken regarding anything from financial transactions to sweat shops, many public officials share an all too familiar sound bite: “let the free market decide.” The crucial thing I’m trying to get at here is that the laissez-faire market ideology has shaped policy in America to such an extent that it is the backdrop against which the public considers most political questions and makes most political decisions, so much so that the laissez-faire market has become a baseline or default of sorts. Neoliberalism has gained so much popularity that even those who don’t identify with the doctrine must often present alternate conceptions in a manner that positions them relative to the laissez-faire market conception. The prevalence of neoliberalism has placed the laissez-faire market as the backdrop of our popular political economic ideology.

As I was raised in the Southern US, the shape of politics in Tennessee and other southern states in the 2010s also serves as a backdrop of this paper. I have witnessed the impact that a neoliberal laissez-faire standard has had on popular political economy. Though the particular beliefs of individuals in these states are far from monolithic, the conceptions that do not endorse a “laissez-faire cures all” approach are considered deviations from the standard view. The modern popular political economic ideology of many citizens and officials in these and other states endorses positions such as: a) taxes are considered theft and are thus morally reprehensible, b) unions and other forms of collective bargaining must be busted even at high costs, c) the poor often have no money because they are lazy and thus deserve their financial situation, and others. I would like to be clear, though: this essay is not written in response to these popular
political positions. Rather, it is written to explore various academic views and structures of the market from both an economic and moral perspective. What is undeniable, though, and I think of significance, is the growth and prevalence that the neoliberal ideology has garnered globally in the twenty-first century, particularly in places like the Southern US.

The result of the neoliberal explosion is that the laissez-faire structure of the market (also called the “free market,” the “unfettered market,” sometimes simply “the market”) has become the baseline and “ideal” version of the market by which all others are judged. I consider the laissez-faire market a baseline because we tend to assess any economic deviation from the laissez-faire market as undesirable. At the very least, the laissez-faire market is the standard market structure and distribution by which we assess and/or critique other market conceptions. Furthermore, many people, including many Americans, give it a morality. Not only is the free market the most efficient means to create and distribute goods and services, the account goes, it is also the morally appropriate way to do so. Letting the laissez-faire market work itself out is a moral imperative: once property rights are established, governments must necessarily retract from tinkering with a market in any way. Justice requires that the state “let it be” such that market transactions are completely unregulated. By letting markets operate void of impediment, commodities are created and distributed in the most efficient manner possible, and those in the market are given their rightful liberty to unrestricted exchange. The unregulated market, as noted above, is also just: letting the market run freely results in Smith’s “invisible hand” or Hayek’s “spontaneous order” delivering to society precisely the efficient allocation it deserves as a result of the non-tuist actions of individual agents. In sum, growing support of neoliberalism has a) made the laissez-faire structure of the market the baseline structure, b) created support for the position that the laissez-faire market will necessarily produce the most efficient consequences, c) placed the laissez-faire market on a moral pedestal, and a) through c) have resulted in d) the laissez-faire market being the more-or-less default or standard among many policymakers.

Of course, markets are only one dimension of an economy. As Rawls suggests, an economy may be distinguished by three general dimensions, or axes: 1) ownership over the means of production, where they are privately owned under a capitalist system and publicly owned under a socialist system, 2) investment in the provision of public goods, and 3) the structure and regulation of markets. Rawls notes that “…the proportion of social resources devoted to [the production of public goods] is distinct from the question of the public ownership of the means of production… [and] there is no essential tie between the use of free markets and private ownership of the instruments of production” In other words, while we tend to associate capitalism (understood as private ownership of the means of production) with markets, for example, the relationship between these two notions is not a necessary one. Markets can exist in both capitalist and socialist economies: markets may function whether productive capital—or other goods or services—is owned privately, publicly, communally, etc. The set of questions I am interested in here concern the relatively narrow topic of axis 3) above: how and why we might structure or regulate markets, but neither whether various goods and services should be owned privately nor whether we should invest in public goods. Questions surrounding dimensions 1) and 2) are no doubt significant; however, the purpose of this essay is to illustrate the importance of the questions concerning market structure regardless of other axes of the economic system.

This “riddle of the laissez-faire baseline” reflects a larger issue concerning the (lack of substantive) distinctions being drawn between positive and normative economics today, at least in the policy realm. Positive economics concerns the examination and analysis of economic inquiries, void of value claims. Economists typically describe this realm as analysis of “cause and effect” or “if-then” statements, while normative analysis explores what should or ought to be done. Positive analysis thus often takes a “scientific” approach to economic concepts and attempts to delineate the relationships between different economic variables, providing a tight descriptive analysis of the variable field and their relationships without coming down one way or another as to whether and what aspects should be endorsed. Normative economics may
incorporate positive analysis but goes further than description or explanation to deliver “ought” statements. The distinctive character the laissez-faire structure—illustrated above—has taken in modern political economy is normative: it’s not just that the laissez-faire market results in x, y, and z if a, b, and c occur; the argument goes that the laissez-faire market ought to be promoted.

The point here is elementary yet vital: policymakers and even academics often present normative economic conclusions under the guise of positive analysis. It is common, for example, to hear something along the lines of “our analysis tells us that policy x ought to be adopted because it is the optimal economic option.” Pure positive analysis is not entirely absent from modern policy dialogue, but the key point is that there has become more or less a singular way to interpret a “market analysis” or “economic analysis.” We tend to (wrongly) associate policy recommendations, for example, with positive analysis (the more “scientific” realm) without considering the hidden value claims wrapped up in any economic policy recommendation. By definition a policy recommendation, even one based in economic analysis, must necessarily incorporate a value claim(s). While I believe we have tended to (wrongly) conflate these two realms in modern economic policy analysis, as we explore the laissez-faire baseline it is crucial to reiterate what aspects are descriptive and which depend on value claims.

The proliferation of the laissez-faire structure of the market prompts a number of questions, but I think the best place to start is with the most basic: why is a laissez-faire market desirable? To answer this question, we must consult both positive and normative analysis, which deliver different—yet not necessarily contradictory—accounts.

What is a market?

In order to make sense of a laissez-faire structure of the market, we must ask: what is a market? A market is, in simplest philosophical terms, a collection of agents engaged in the joint exchange of goods and/or services for mutual advantage. Two crucial roles characterize a market: it is a mechanism of both creation and distribution. These two aspects are not mutually exclusive and indeed often overlap, but from a philosophical perspective we can think of a market as serving both roles. It is a mechanism of creation in virtue of the incentive schemes it helps establish and the coordination it engenders within an economy. The most basic way to conceptualize this aspect is through Adam Smith’s insistence on the division of labor: exchange in the marketplace enables agents to specialize in a certain field, allowing society to increase overall production. Specialization, the story goes, grows society’s pie, from which all people benefit. A less ambitious interpretation might hold that specialization, the division of labor, and exchange increase overall production but not necessarily to the benefit of all.

Though the division of labor argument may be a simplification, it is useful in highlighting the focus on productivity and efficiency associated with a market’s role in creation. Though a market may not be the only way to grow an economy, the point is that a market is one way to do so. A market increases overall productivity through specialization, economies of scale, incentive schemes, etc. enabled by exchange. It is a market’s role in creation that makes a market so “efficient.” But what exactly do economists mean when they defend markets as being “efficient”? Though we will explore in the next section why we ought to promote such efficiency, the crucial aspect of a market’s “efficiency”—and the reason markets are often considered so attractive—is because they produce pareto optimal outcomes. Economic philosopher Daniel Hausman explains what a pareto optimal scenario looks like:

“Consider two economic outcomes S and R, and suppose that some people prefer S to R and that nobody prefers R to S. In that case S is “Pareto superior” to R, or S is a “Pareto improvement” over R. Without making any interpersonal comparisons, one can conclude that people’s preferences are better satisfied in S than in R. If there is no state of affairs that is Pareto superior to S, then economists say that S is “Pareto
optimal” or “Pareto efficient.” Efficiency here is efficiency with respect to satisfying preferences rather than minimizing the number of inputs needed to produce a unit of output or some other technical notion (Legrand 1991). If a state of affairs is not Pareto efficient, then society is missing an opportunity costlessly to satisfy some people’s preferences better. A Pareto efficient state of affairs avoids this failure, but it has no other obvious virtues. For example, suppose nobody is satiated and people care only about how much food they get. Consider two distributions of food. In the first, millions are starving but no food is wasted. In the second, nobody is starving, but some food is wasted. The first is Pareto efficient, while the second is not.8

The first half of Hausman’s excerpt helps demonstrate a key point in understanding “what a market is”: a market is a mechanism that produces pareto efficient outcomes at competitive equilibrium. Presumably, a competitive market equilibrium assumes four fundamental conditions: 1) perfect competition in terms of market power (no single agent may influence the price), 2) complete and symmetric information, 3) rational agents, and 4) the absence of externalities or public goods in the market (the market price incorporates all costs and benefits to society).9 In order to be considered a competitive market, a market must reasonably fulfill these four conditions, which taken together are collectively known as “perfect competition.” If any of these conditions are reasonably unmet, then economists refer to the scenario as a market failure.

This gets us to a crucial point in our modern interpretation of markets. Perfect competition—considered as all four fundamental conditions taken together—is required for a market to achieve pareto efficiency, so markets experiencing market failure are not pareto optimal. What does this imply about market equilibrium? It means that while almost any market may come to equilibrium, only competitive markets are pareto efficient. Because pareto efficiency is what makes markets so attractive, an equilibrium resulting from a market experiencing market failure is not itself maximally attractive. We must assess whether the equilibrium is competitive in the sense outlined above.

The importance of the distinction between these two scenarios cannot be overstated. If pareto efficiency is the objective, then positions and phrases like “let the market decide” are actually trying to get at the following sentiment: “let the competitive market decide.” A market whose fundamental conditions are reasonably unmet—say, a huge trust exists in the market such that a couple of firms have monumental market power—should not be given the same status (or desirability) as a competitive market. In sum, there is nothing particularly profound about a market—it only says that agents are exchanging items and coming to some equilibrium. The real economic structure to be promoted is the competitive market because it is the competitive market that tends to maximize efficiency.

The second half of Hausman’s excerpt above gets at the role of distribution that a market plays. As a mechanism of exchange, a market is not only a driver of efficient outcomes, it also allocates goods and services throughout society. And the way a market is structured or regulated plays a large role in determining precisely how, to whom, and to what extent a market allocates goods and services—including income. Hausman’s excerpt alludes to the notion that I will address below: while a market may drive overall efficient outcomes in an economy, the distribution associated with a pareto optimal outcome has no particular virtues.

While a market serves these two roles, what exactly a market looks like may vary drastically. Recall that markets may exist under “capitalist” or “socialist” economies. Save its crudest forms, the market requires some sort of property scheme to get off the ground. From there, the diversity in manifestations a market may take follows from the plurality of variables at play: the “things” that may be exchanged in markets, the way markets treat these “things,” who or what agents are permitted in the market, how exactly “things” may be exchanged, the freedom agents have in their market interactions, and so on.
Conceptualized in this way, the market is amoral. It is simply a system of exchange that may serve roles of distribution and creation in an economy. Where the market can be taken from here is virtually endless, and whether the outcomes or distributions a market produces are valuable from a moral perspective requires the incorporation of value claims that are external to the “positive” concept of a market. Manifestations of the market must necessarily make a number of assumptions—political, economic, and moral—by which the market is presumably shaped.

We sometimes take for granted that the market can look drastically different in both theoretical constructions and reality, so it’s worth reiterating: there is no one ‘market.’ As scholars it is our duty to determine whether the premises and assumptions of the varied manifestations of the market can stand up to critical assessment, empirical findings, and moral theory. Perhaps more importantly, it is our job as political economists to assess what these market manifestations mean for our political economy, and which of these manifestations may best serve the purposes expected of it, all things considered. While we have tended to let the laissez-faire structure of the market slip into the default, basic economics illustrates that the competitive market should occupy such a space. A laissez-faire market may take on the character of either a market experiencing market failure or a competitive market depending on the circumstances of the specific market. It is the particular characteristics of the market that are attractive from a economic point of view, and thus the competitive market must be the economic standard by which we assess various market structures.

Though the market can be defined in very abstract terms, it has profound implications in reality. The significance of the production and distribution of resources, particularly income and wealth, to individuals throughout society cannot be overstressed. Indeed, the market shapes individuals’ lives and influences the place of various states and groups in the global political economy. As the political realm is rarely cut off from the economic, the distribution of wealth and other resources obviously has serious implications for power both within and among societies. A critical assessment of the market has become increasingly pertinent as a single manifestation of the market has become more dominant: the laissez-faire market.

In sum, a market is a collection of agents engaged in joint exchange of commodities, and a competitive market is a market that produces pareto optimal scenarios when competitive equilibrium is reached. A competitive market may take a variety of shapes and sizes: there is no one competitive market. And there is nothing internal to the concept of pareto efficiency that supports the notion that only the laissez-faire market may reach such efficient outcomes. Economists generally agree, however, that in order for a market to reach competitive equilibrium, it must satisfy the set of fundamental conditions noted above. From an economic perspective, this is why we must replace the laissez-faire market with the competitive market as default. In the next two sections I explore these conditions and highlight their frequent violation under a laissez-faire market.

Adam Smith on the assumption of perfect competition

In his most famous work, The Wealth of Nations, Smith lays out what many consider the first long-standing conceptualization of markets. Indeed, Smith went much further than the market to present some of the fundamental workings of capitalism, but these capitalist formulations need not concern us here.

It is widely held that a handful of foundational assumptions must be met for the market to work effectively. Though all of these assumptions are vital, the entire system is lost if the assumption of perfect competition in terms of market power is not met. Competition in the market is supposed to incentivize market actors to develop the most productive means of bringing commodities to market. In this way, the competitive market is intended to motivate
actors to develop the most efficient and productive systems possible, ceteris paribus. Increasing the efficiency and productivity of a market and a society has many advantages. The fruits of efficiency make it an extremely worthy goal, ceteris paribus. This competition also drives firms to develop goods and services that people want—a firm will not attract many buyers if it produces goods or services that few consumers want or need. In this way, the price mechanism under genuine competition drives firms to produce commodities truly demanded by society. But these results are only possible if market actors equally lack unreasonable market power.

When actors have non-zero market power it means they have at least some power in determining the market price. The monopolist, for example, has gargantuan market power because she has so much influence in setting the market price. She does not have to compete and has less motivation, though not zero motivation, to increase productivity and efficiency. Monopolists are not the only ones with non-zero market power, though. Cartels, trusts, oligopolies, and any market actor that has acquired any market power whatsoever, by definition, more than zero market power. When any market actor has non-zero market power, then the assumption of perfect competition and the benefits noted begin to deteriorate. Conceptualizing the case of the monopolist illustrates that a market with imperfect competition has negative effects for both other producers in the market (or who want to be in the market) and for consumers as well.

In Chapter VIII of Book I of *The Wealth of Nations*, Smith illustrates how prices (wages) are set in the labor market. As with any market, consumers (employers) and producers (laborers) want the market price to be as low and as high as possible, respectively: “The workmen desire to get as much, the masters to give as little, as possible. The former are disposed to combine in order to raise, the latter in order to lower, the wages of labour.” 10 In the above passage, Smith also notes that consumers and producers are disposed to collude in order to gain market power and drive the market price in the direction they see fit. Such coordination would obviously violate the perfect competition assumption. This is why we have seen many neoliberals advocate for laws against labor unions. Collusion among suppliers in the labor market (laborers) would violate the assumption of perfect competition, thus, we must keep the market as free and competitive as possible, the argument goes. These claims have some weight, but they ignore a simple empirical fact: consumers in the labor market (employers) possess non-zero and often unreasonable market power relative to the buyers. Smith acknowledges this in Book I:

“It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, being fewer in number, can combine much more easily: and the law, besides, authorizes, or at least does not prohibit, their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work, but many against combining to raise it. In all such disputes, the masters can hold out much longer. … Many workmen could not subsist a week, few could subsist a month, and scarce any a year, without employment. In the long run, the workman may be as necessary to his master as his master is to him; but the necessity is not so immediate.” 11

Though some of the specifics Smith highlights are no longer relevant, the force of his points is still valid. He acknowledges that employers have an advantage over laborers. First, there are almost always fewer employers than laborers in the market. Consider the stereotypical Appalachian mining town. The mining company is, with little exception, the only employer in the geographic space. The laborers, though voluminous, have only one option to choose from in term of selling their labor: the mining company. The employer has non-zero market power and thus has greater leverage than the laborer in setting the wage. Though this scenario becomes less troublesome to the extent that there are more employers in the market, the principle, as Smith notes, still holds: there will (almost) always be fewer employers than laborers, giving employers non-zero bargaining power. Second, laborers “stand in need of an [employer], to
advance them the materials of their work,” and are unable to hold out as long as the employer in bargaining situations. In virtue of being members of a class that has the means to employ other actors, buyers in the labor market are able hold out (not lower the wage to the level sought by laborers) longer than the sellers in the market. This gives them more market power in setting the price of labor than laborers. This scenario is often referred to as monopsony: one buyer and many sellers.

An objection may be raised here that Smith is only arguing about the inequality of market power in the labor market, not laissez-faire markets generally. Consider such an objection, though. The labor market is a requisite market for almost any industry in society to bring commodities to market. Thus, imperfect competition in the labor market has ramifications for the efficiency of most markets. And though the dynamic inherent in the labor market may not be present to the same extent everywhere, it seems clear that perfect competition in market power is violated in a variety of arenas. The patent laws that exist in much of the industrialized world are modern examples of how some firms (those with large patent chests) are able to acquire non-zero market power.

Though it’s not the focus of this essay, it is worth mentioning briefly that as a matter of history capitalist societies have tended to inhibit perfect competition in terms of market power. In other words, by its nature capitalism may inhibit competitive markets and thus pareto efficient allocations. This line of thought suggests that the concentrations of wealth we often see under capitalism enable the extremely well-off to garner unreasonable market power and influence the government to stifle competition in their favor. This is not to say that a capitalist society cannot reach a pareto efficient allocation, merely that there has been a historical tension between the private ownership of the means of production and the widespread and satisfactory fulfillment of perfect competition in terms of market power.

In sum, the kernel of my interpretation of Smith’s argument is thus: because buyers in the labor market inherently have non-zero market power, market power in the unregulated labor market is unequal. This inequality in market power results in a violation of the assumption of perfect competition in terms of market power, making such a laissez-faire market a market failure. This suggests that the laissez-faire labor market almost always has imperfect competition and thus does not maximize efficiency, except in scenarios where employers reasonably outnumber potential employees in some given geographic area. If these laissez-faire markets were to be structured so as to more reasonably fulfill the assumption of perfectly competitive market power, then they could likely achieve more efficient outcomes.

**Stiglitz on the ‘invisible hand’**

Among the other fundamental assumptions necessary for proper functioning of the competitive market are complete and symmetric information, rational economic actors, and that the market price reflects all associated costs and benefits. When all of these assumptions are met, the story goes that the so-called ‘invisible hand’ of the unregulated market will benefit both the individual and society. The work of Joseph Stiglitz, a prominent Nobel prize-winning economist, has demonstrated that the ‘invisible hand’ of the self-regulated market is riddled with maladies.

The prevalence of serious market failures has provided empirical verification of the widespread violation of the assumption that all costs and benefits are internalized in the market price in a laissez-faire market. Often, if not always, some externalities exist such that the market price does incorporate all benefits and costs:

> “Whenever there are “externalities”—where the actions of an individual have impacts on others for which they do not pay, or for which they are not
compensated—markets will not work well. Some of the important instances have long understood environmental externalities. Markets, by themselves, produce too much pollution. Markets, by themselves, also produce too little basic research. [The government was responsible for financing most of the important scientific breakthroughs, including the internet and the first telegraph line, and many bio-tech advances.] But recent research has shown that these externalities are pervasive, whenever there is imperfect information or imperfect risk markets—that is always.”

Half a century of economic research, of which Stiglitz has made a large contribution, has proven that laissez-faire markets often fail to internalize significant externalities, such as environmental degradation. These are real, and often substantial, costs to both individuals and society (i.e. environmental pollution often results in harm to human health), yet because the unregulated market is unable to accommodate these externalities it results in market failures. As Stiglitz argues, these market failures are exacerbated by the fact that the assumption of complete information is rarely met. Complete information assumes that economic actors are aware of all commodities on the market, and that this information is not shared asymmetrically such that some actors have complete information while others do not. In a seminal article, Stiglitz and Greenwald found that “equilibria in situations of imperfect information are rarely constrained Pareto optima.” In other words, in realistic laissez-faire market scenarios with imperfect information, maximum efficiency is not achieved.

American consumers often have difficulty acquiring perfect information in a single market, let alone multiple markets. Even if a market is on the smaller side and the prices of each commodity are known, knowledge of the process by which each commodity was brought to market is rarely acquired. This information concerns the environmental and social impacts surrounding the production of a commodity—information that contributes to consumers’ decision-making but is virtually never acquired.

Finally, multiple decades of research in behavioral economics and cognitive psychology has demonstrated that the assumption of the rational economic actor is false, at least by the typical “revealed choice” conception of rational choice popular among economists. The assumption of rational actors holds that the decisions of market actors always reflect rational choice. Studies have shown that economic actors often act in boundedly-rational ways. Studies have demonstrated, for example, that an actor’s preferences over (spatiotemporal) goods and/or services are often influenced by the manner in which choices are structured or presented. This is because an actor’s decision making is often influenced by cognitive biases such as anchoring, implicit prejudice, loss aversion, status quo bias, framing, bracketing, cyclical willpower, as well many other factors.

The work of Stiglitz and many others has shown that some of the fundamental assumptions of market effectiveness are violated in many, though not all, laissez-faire market scenarios. Consumers rarely, if ever, have complete information. Externalities exist in many markets and resultant market failures indicate that often the market price, in fact, does not capture all costs and benefits. And empirical studies indicate that humans act in boundedly-rational ways in the market. This has obvious repercussions for the laissez-faire market and its supposed ‘invisible hand’:

“…unlike his followers, Adam Smith was aware of some of the limitations of free markets, and research since then has further clarified why free markets, by themselves, often do not lead to what is best. …[The] reason that the invisible hand often seems invisible is that it is often not there.”

At this point, it may be useful to reiterate some of the points highlighted above and connect the claims presented thus far. The neoliberal paradigm popular among policy makers
has placed the laissez-faire market as the economic baseline and ideal standard. As the argument goes, the way to achieve the best economic outcomes from the perspective of the entire society is to let the laissez-faire market run unaltered. If the government intervenes in the laissez-faire economy, then the efficiency of the market will be stifled, thus, the laissez-faire market is the economic baseline. However, as the work of Smith, Stiglitz, and others have demonstrated, the conditions required for a competitive market to reach a real equilibrium are often unsatisfactorily unmet in a laissez-faire market. This seems to be especially the case for labor markets.

To clarify, there are a variety of arguments one might present in defense of government intervention or state programs that “disrupt” the laissez-faire market. But the argument I am defending in the first section of this essay, though not new, is of a very specific character. I am neither introducing moral claims to critique the laissez-faire market nor am I arguing that the laissez-faire market produces social distributions that should be augmented by state programs. My argument here is stunningly simple and depends on only the tenets of pareto optimality, general equilibrium, and the conditions of a competitive market. It is thus a purely economic argument in favor of dethroning the laissez-faire market as the baseline.

It is often remarked that competitive markets are a theoretical ideal and are almost never achievable in reality. This might be true, but as we have seen, the ideal version of a market has much influence on the formulation of public policy and the way a population might elect to structure a market. Also, it should be noted that while a competitive market is extremely difficult to achieve, we should still strive to satisfy the fundamental conditions of perfect competition as best we can. Even if a competitive market is a theoretical ideal, lessening the extent of market failures via government intervention can indeed produce more efficient (if not maximally efficient) outcomes than a laissez-faire structure.

One final point I’d like to make before summarizing this section is to note that the economic arguments I have presented thus far in the essay are intended to be concerned with the initial allocation by the price mechanism, prior to any redistribution or transfers. The economic claim I am highlighting thus far has nothing to do with equality or justice, merely with pursuing efficiency through various market structures. In other words, I’m trying to highlight that the initial allocation of a market is pareto optimal when it results from a competitive market. Because laissez-faire markets are often not competitive, they could often be made more efficient through government intervention that remedied market failures. This might best be understood as an argument under the domain of what Rawls calls the allocation branch of government, not the transfer or distributive branches. Unlike the efficiency argument I’ve highlighted thus far, the moral arguments in the next sections do concern these latter branches.

My argument is that a laissez-faire market should not be considered the baseline because it is often not a competitive market—a market under which its fundamental assumptions are fulfilled—and thus cannot be theoretically expected to reach competitive equilibrium. Under the supposition that the laissez-faire market is the baseline, government intervention is seen in light of its “disruption” of the “natural” interactions of the market. But should these “natural” interactions be respected if they are violating the basic conditions and resulting in market failures? Because government intervention is sometimes needed to meet the basic conditions of a competitive market, we should not assume that the laissez-faire market is the economic baseline under which equilibrium is always reached. If general equilibrium is the goal, then a perfectly competitive market filled with rational agents, perfect information, and no public goods or externalities should be our economic baseline (often called a “competitive market”), and it may or may not require government intervention to help establish such fundamental market characteristics. Put simply, the economic baseline should be a competitive market that doesn’t fail, not a laissez-faire market, because much evidence suggests that these two need not necessarily be the same.
Moral arguments concerning the laissez-faire market baseline

There are two general types of moral arguments levied in support of a market. The first come from those that defend the market according to a rights-based approach. Though the specific formulation of these accounts differ, the general theme is that economic rights to personal property, productive capital, and unregulated voluntary exchange belong in the same set of basic liberties as rights to conscience, assembly, the rule of law, speech, political rights, etc. This is the sort of argument that Nozick defends, for example, in Anarchy, State, and Utopia. By these accounts, it is respect for individual rights—not productivity or efficiency necessarily—that provides a moral basis for the laissez-faire market: in order to respect the economic rights of individual agents, the state must lay off intervening whatsoever in market functions. Though I don’t have the space here to examine these sorts of arguments in depth, many liberal scholars such as Samuel Freeman and Rawls himself argue that while economic rights should be respected they do not merit inclusion in the basic “first-principle” set of rights. I interpret their arguments as congruent with the position that while actors have a right to exchange in the market, these rights may be regulated or limited to some extent on the basis of other considerations pertinent to justice, such as “first principle” concerns or concerns over the distribution of wealth, income, and other social primary goods in society.

A more relaxed version of the rights-based argument for a market, which is consistent with the Rawlsian position, posits that agents have “first-principle” rights to personal property but not productive capital, and thus while a market may be generally respected in society it may be regulated for other moral considerations. These rights-based arguments in support of various structures of the market are significant, and they merit serious consideration. I don’t have the space to fully defend my position here—though the moral arguments below do some of the work—I take the general Rawlsian or “high liberal” stance that individual rights to exchange in the market should be respected in any just society but they are not of such priority that they may never be regulated.

The second general class of moral arguments used in defense of a market are those that emphasize the good consequences—not rights—a market may promote. A variety of moral arguments emphasizing outcomes exist, including classic utilitarian arguments, but I will focus on those arguments broadly related to the two fundamental principles of welfare economics. Hausman introduces us to the first and second theorem of welfare economics:

“The first theorem says that equilibria in perfectly competitive markets are Pareto optimal, while the second says that any Pareto optimal allocation, with whatever distribution of income policy makers might prefer, can be achieved as a perfectly competitive market equilibrium, provided that one begins with just the right distribution of endowments among economic agents.”

The first theorem reiterates a notion that I touched on earlier. Namely, general competitive equilibrium promotes pareto optimal allocations. As Hausman notes, in order to endorse the pareto optimal aspect of a market as morally attractive we must insert the “innocuous moral principle of minimal benevolence: other things equal, it is a morally good thing if people are better off.”

We will assume, as most economists do, that welfare refers to preference satisfaction. Thus, combining a preference satisfaction account of welfare—which is itself controversial—and minimal benevolence we can generally conclude that ceteris paribus “it is a morally good thing to satisfy an individual’s preferences.” In sum, the general conclusion we can reach is that if one accepts a) minimal benevolence and b) a preference satisfaction account of welfare, then all else equal “perfectly competitive equilibria are morally desirable and market imperfections that interfere with the achievement of competitive equilibria are morally undesirable.” This point is useful in that it provides a basic moral outcome-based defense of competitive market
equilibria, which reinforces the conclusions drawn above regarding the notion that promoting competitive equilibria in the market is not necessarily attached to the laissez-faire market (but that competitive market equilibria are paretian optimal and, ceteris paribus, morally justified). Still, this minimal benevolence account of the market is far from robust, seeing as it is only supported when all other moral considerations are held equal—a crucial condition.

The relaxed rights-based argument and moral paretian optimal arguments provide a thin moral defense of the market. However, I argue that the strongest version of these arguments, as noted above, hold that while the functioning of the market may be morally respected, when other moral “dimensions” are not “equal” then alterations in the structure of the market may be morally justified. This is another way of saying that the laissez-faire market distribution is not an ultima facie moral baseline: the distribution of commodities under a laissez-faire market must be squared morally with other aspects of social justice. The arguments presented by Rawls, Murphy, Nagel, and Polanyi below demonstrate precisely these sorts of other considerations that may temper a market’s structure.

The sections above have primarily presented economic arguments against the laissez-faire market—that the empirical violation of its fundamental assumptions often results in inefficiency. Political philosopher John Rawls, however, presents another sort of argument. His is one that attacks the morality—or fairness—of the laissez-faire market, even if its assumptions were to hold. The argument I am drawing on for the purposes of this dialectic concerns the moral arbitrariness of the genetic and social lottery. I should note upfront, however, that Rawls’s moral arbitrariness argument serves much more ambitious purposes for his project in A Theory of Justice than what I explore here. I am merely highlighting an aspect of the argument that is extremely relevant to the discussion of the distribution of a laissez-faire market. Though I’m not defending these larger ambitions in detail, the moral arbitrariness argument is intimately related to Rawls’s democratic conception of the principle of fair equality of opportunity and the difference principle, and the connection between distributive justice and the background justice of markets. For the purposes of this essay, the basic premises and conclusions of the argument go something like this:

1. Different labor markets require laborers to have different talents, abilities, and traits to succeed. The extent to which an individual fares in a specific labor market is partially determined by the extent of the individuals’ talents, abilities, and traits.
2. Wages for labor differ across markets, and this difference is at least partially determined by society—the preferences of consumers. What consumers are willing to pay for the products of a certain industry differs (i.e. American consumers are willing to pay more for sports tickets than books).
3. Therefore, different talents, abilities, and traits (and the extent of those talents, abilities, and traits) give individuals different earning power, in a given society. [1, 2 à 3]
4. The natural distribution of talents, abilities, and traits to individuals in society is morally arbitrary. Individuals do not deserve the genetic endowment they are born with any more than they deserve the social position into which they are born.
5. Therefore, the distribution of wages earned by those in an unregulated market economy are to some extent morally arbitrary. [3, 4 à 5]

This argument is a response to neoliberal arguments that individuals deserve precisely what they are able to earn in the laissez-faire market, regardless of the socioeconomic distribution or other social factors—that they are entitled to no more and no less. Consider the labor market for basketball. No matter how hard I work at cultivating my athletic talents I will never fare well in the labor market for basketball players. Even if I were to cultivate the talents with which I am
best endowed (intellectual talents perhaps) and become the highest paid academic in my field, my wage as a professor would likely still be lower than the wage of the lowest paid basketball player in the NBA. NBA players receive such high salaries because consumers are willing to pay large prices to see them play. But society’s relative preferences for the products of different markets (in this case the product is a basketball game and the market is, by extension, the labor market for basketball) is subjective, morally arbitrary, and varies by society (i.e. professional players are paid much less in Norway). It depends simply on what individuals in that society prefer at the time. Differences in talent between Kobe Bryant and myself are, in fact, morally arbitrary, at least to some extent.

The objection is often made here that the labor market for sports is a special case and that the argument does not apply to labor markets more broadly. Generally, the objection goes, individuals can work hard enough to cultivate talents so that differences in natural endowments do not matter. This, I argue, is simply empirically false. Humans are endowed with different talents and abilities, and, further, the extent of our talents, abilities, and traits is due partially to social (not personal) reinforcement and encouragement. Individuals, for example, may be genetically endowed with significant talent, but may fail to cultivate that talent due to a lack of self-confidence or reinforcement from family and friends. Those who grow up in loving and supportive homes, for example, often develop traits like confidence that others without such privileged social positions may lack, at no fault of their own. Even the expectations of an individual’s community can have effects on things like self-motivation, et cetera. Abilities, talents, and traits may by no means be deduced entirely from social conditioning, but it must be acknowledged nonetheless that arbitrary things like social position (and, by extension, social conditioning) and genetic endowment give some individuals the tools to have a relative advantage in labor markets. We can conclude this from Rawls’s argument: even when the distribution of the unregulated market may be efficient it cannot be considered perfectly just, since benefactors of the morally arbitrary genetic and social lottery have unfair earning power in the market.

In The Myth of Ownership, Thomas Nagel and Liam Murphy highlight a related conclusion. One of the main facets of the neoliberal agenda is “keeping government small” and out of the laissez-faire market. Following this line of thought, individuals often remark that the government is “stealing” their money when taxes must be levied. This implicitly assumes that individuals have some sort of unrestricted claim to their pretax income such that it may never be taxed. This neoliberal notion that the distribution of wealth and income by the laissez-faire market must stay untouched completely ignores that a market is only possible under a scheme of property rights and the support of government, as well as society more broadly. Murphy and Nagel argue:

“There is no market without government and no government without taxes; and what type of market there is depends on laws and policy decisions that government must make. In the absence of a legal system supported by taxes, there couldn’t be money, banks, corporations, stock exchanges, patents, or a modern market economy—none of the institutions that make possible the existence of almost all contemporary forms of income and wealth. It is therefore logically impossible that people should have any kind of entitlement to all their pretax income. All they can be entitled to is what they would be left with after taxes under a legitimate system, supported by legitimate taxation—and this shows that we cannot evaluate the legitimacy of taxes by reference to pretax income. Instead, we have to evaluate the legitimacy of after-tax income by reference to the legitimacy of the political and economic system that generates it.”

Rawls shows that the earning power of individuals is partially arbitrary from a moral point of view, and Nagel and Murphy demonstrate that the vast array of government systems
and policies, including the legal system of private property, are necessary for the market to ever be realized. In this sense, government, taxes, and redistributive policies cannot be considered separate from the laissez-faire market. Indeed, they argue:

“The modern economy in which we earn our salaries, own our homes, bank accounts, retirement savings, and personal possessions, and in which we can use our resources to consume or invest, would be impossible without the framework provided by government supported by taxes. … We cannot start by taking as given, and neither in need of justification nor subject to critical evaluation, some initial allocation of possessions [from a laissez-faire market]...” 31

In sum, we saw above that the distribution from even a competitive laissez-faire market is only morally reinforced when all other things are equal. Due to the presence of a variety of morally arbitrary factors driving the incentive schemes and distribution of goods and services under a laissez-faire market, we must conclude that the laissez-faire distribution is not a perfectly just and ideal baseline. It fails to accommodate for the unfair earning power resultant from the genetic and social lottery, and a strict adherence to the laissez-faire market ideology ignores that both government and other agents in society (who make exchange possible) are required for the existence of a market. We cannot take “as [morally] given” and void of alteration the distribution from a laissez-faire market: because a laissez-faire market and its respective allocations are made possible by a larger social, state, and legal system, the distribution delivered by a laissez-faire market must be considered as part of this larger system, including from a moral perspective.

Polanyi on commodities and the role of the economy in society

In The Great Transformation, Polanyi presents one of the most nuanced and whole critiques of the laissez-faire market. As an economic historian and anthropologist, his work puts the arguments we have consulted thus far in perspective. Two of his main theses are of utmost relevance to our subject. First, Polanyi understood “the market as part of the broader economy, and the broader economy as part of a still broader society. He saw the market economy not as an end in itself, but as a means to more fundamental ends. All too often privatization, liberalization, and even macro-stabilization have been treated as the objectives of reform.” 32 Second, Polanyi argues that the market commodifies what he deems “fictitious commodities”—labor, land, and money—to the detriment of social relations.

First things first, Polanyi sees the economy as necessarily embedded in the broader society. Embedded is a technical term for Polanyi and refers to the fact that “the economy is not autonomous, as it must be in economic theory, but subordinated to politics, religion, and social relations.” 33 Because the laissez-faire market sees itself as outside or autonomous of the social relations of society, Polanyi argues that the self-regulated market attempts to disembed—another technical term for Polanyi—the economy from society. Attempting to embed social relations within the market has disastrous results. Further, Polanyi argues that the “free market’s” mission of disembedding the social relations of humans is impossible:

“Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into wilderness.” 34

This, he argues, is because humans are fundamentally social and their motives and behaviors will always reflect these facts. The market is directed by market prices alone. To have
the whole of economic life regulated by such a principle, he remarks, would indeed be self-regulating. But “man’s economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only insofar as they serve this end.” Thus, the self-regulated market actually attempts to strip apart man’s social relations by wedging the market into economic life as an end rather than a means.

Second, Polanyi remarks that the laissez-faire market is nothing more than a mechanism driven by market price. As price is the only driver of market fluctuations and equilibrium, without exception everything exchanged within the market must be treated as a commodity. A commodity, according to Polanyi, is something that was produced to be brought to the market. Thus, by definition labor, land, and money are not commodities. Because the laissez-faire market is blind to the fact that labor, land, and money were not produced for the market, Polanyi deems them “fictitious commodities.” In his introduction, Fred Block notes that there are two levels to Polanyi’s “fictitious commodities” argument. The first is a moral argument that treating humans and the natural world as things that can be measured and sold on the market is problematic morally. “Such a concept,” he argues, “violates the principles that have governed societies for centuries: nature and human life have almost always been recognized as having a sacred dimension. It is impossible to reconcile this sacred dimension with the subordination of labor and nature to the market.” The second level of the argument is that because of the fact that the laissez-faire market treats these “fictitious commodities” as any other commodity, the state ends up having to actively manage the failures of the market in relation to labor, land, and money. For example, the government must manage fluctuations in demand for labor, and must continually balance the supply of credit and money so as to avoid the “twin dangers” of inflation or deflation.

Treat ing labor, land, and money as commodities necessarily has fatal consequences for the broader society:

“For the alleged commodity ‘labor power’ cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man’s labor power the system would, incidentally, dispose of the physical, psychological, and moral entity ‘man’ attached to the tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation.”

Towards a fair and competitive market

A summary of the relevant bits we can extract from the theories and arguments of Hausman, Smith, Stiglitz, Rawls, Murphy, Nagel, and Polanyi include:

1. The fundamental assumptions necessary for a competitive market to economically function properly are often unmet under a laissez-faire market:
   a. perfect competition concerning market power: often market actors have unreasonable non-zero market power.
   b. complete information: actors virtually never have complete and symmetric market information.
   c. rational economic actor: research shows that actors are often influenced by cognitive biases such that they routinely make boundedly-rational decisions.
d. Market price internalizes all costs and benefits: often the unregulated market fails to include “externalities” such that market failures occur frequently and public goods are unaccounted for.

2. Earning power is partially dependent on the results of the genetic and social lottery, which are arbitrary from a moral point of view. The distribution of wealth and income in the laissez-faire market cannot be considered a perfectly just baseline distribution.

3. The existence of a market necessarily requires a variety of governmental policies and systems (i.e. legal system of property). It makes no sense to conceive of a laissez-faire market as outside the purview of the government and thus external to the system of taxation.

4. A market must necessarily be embedded in society: the market serves the ends of the economy, which must serve the fundamental ends of society.

5. Anthropologic research shows that any attempt to disembed economic relations from social relations, as a laissez-faire market attempts, will fail.

A market necessarily treats those things exchanged within it as commodities—things produced to be subject to its price mechanism. “Fictitious commodities” do not and should not behave like real commodities in a laissez-faire market. Treating labor, land, and money as commodities has disastrous social and moral consequences.

Though not always, oftentimes laissez-faire markets violate the fundamental assumptions of the competitive market. If these assumptions do not hold, then the laissez-faire market loses its economic allure. Empirically, the laissez-faire market is simply not the most efficient mechanism possible in many instances. In addition, the laissez-faire market distribution is sometimes morally problematic when left untouched. It takes no account of arbitrary differences in earning power, subordinates social relations to the price mechanism, and treats things as commodities that simply cannot and should not be treated as such.

Towards the beginning of the essay I noted that there are many alternative market structures to the laissez-faire market. We have seen that a laissez-faire market often does a poor job of fulfilling the fundamental assumptions. However, this does not mean that other manifestations of the market should be thrown out as well. I argue that what I call the “fair market” may do a better job of taking account of these assumptions. I conceive of a “fair market” as both a competitive market (a market under which all fundamental conditions are met, or fulfilled to the highest extent possible) and a market that is structured or altered to meet a variety of fundamental ends of justice, not simply efficiency.

A fair market is a systematic way of thinking generally about how a market should work, which must certainly incorporate what role the state might play in the market. The fair market is governed by a set of principles, which lay out both why and how markets should function. The distinguishing factor between a fair market and a laissez-faire market—and, indeed, it leads to huge differences—can be found in the content of these principles. As noted, a fair market places the competitive market acquiring general equilibrium—not a laissez-faire market—as the economic ideal. For economists, this will be the most attractive feature of the fair market. With the assumptions (closer to being) fulfilled, the fair market will theoretically produce more efficient results than alternatives.

The notion of government intervention runs parallel to a fair market conception. Indeed, much of what separates the two conceptions is that the state has an open and ongoing role in helping fulfill the fundamental assumptions in a fair market. In this way, the fair market is a holistic way of making sense of state intervention in the economy—it gives us principles to explain and justify the state’s role in a systematic way. So what exactly does a fair market look like? The best place to begin is with our concluding thinker—Polanyi. The first principle of the
fair market is that markets must be embedded in our social relations. The economy, much less the market, is only a means to more fundamental human goals. As such, it is subordinate to our politics, social relations, etc.—and it must complement, not contradict, culture. Though this may seem trivial, it has drastic consequences. Contrary to a laissez-faire market, a fair market is governed by a principle such that it may never take market or economic ends as final ends—it must necessarily consider broader social goals and social relations. As we have seen with the spread of neoliberalism throughout global markets, attempting to strip apart economic relations from social relations has fatal consequences. When this occurs, the state is stuck picking up the pieces. The fair market is in no way autonomous from society’s broader workings. It recognizes and respects social relations and social assets—the family life, the vitality of labor in leading a good life, human health, et cetera. Consequently, the fair market is seen as striving to work in harmony with individuals’ fundamental, rather than intermediate, needs and wants.

Following in suit with Polanyi, the fair market does not necessarily define the things that are exchanged within it as “commodities.” As a principle, it considers the context and specifics of each “thing” to be exchanged. It makes no sense to consider labor a commodity. In many ways, labor is more fundamental than the market. Commodifying an individual’s life work and subordinating it to an automatically adjusting price mechanism runs contrary to more fundamental aims. Thus, a fair market for labor would take into account that the thing exchanged is the life activity of humans. Social theorist Michael Walzer and Polanyi both seem to agree on this: different markets, in light of what is exchanged within them, require both different market structures and principles of distribution. Health care, for example, should be distributed by a much different principle — namely, the principle of need — than televisions. Extrapolating beyond Polanyi, the fair market conception does not ignore the reality that market results are necessarily a joint activity for mutual advantage. The market is a mechanism by which comparative advantage is utilized to produce a division of labor. This segmentation results in the productivity gains necessary for anything resembling a modern political economy. Even Smith noted that fundamental to a modern economy is the cooperation between individuals. The laissez-faire market ignores the fact that the work of the economy is joint activity. It implicitly assumes that market actors operate in distinct vacuums — each market actor is considered separately — and the production of one actor or market is not considered in light of the fact that their specialization would be impossible without other actors specializing and cooperating as well. Void of this cooperation, their work would be worthless. In this way, under a laissez-faire market individual ignore the fact that they have purchase in and are linked to the economic well being of other market actors. Economic life is necessarily a joint activity, and the principles of the fair market reflect that. Economic exchange in the market is valuable because it is of mutual advantage — both parties stand to benefit. This exchange is not justified by the moral notion that actors have a right to unrestricted economic transactions, which justifies that notion prevalent in America that businesses may use malicious or deceitful tactics to sells products. Such an idea is not supported under the fair market because such an idea is not justified by the purpose of an economy: mutual advantage. Simply because a business can trick consumers into buying a product, often by manufacturing consent, does not mean that they are entitled to do so. Market restrictions and regulations that guard against such business tactics are supported in a fair market precisely because it ensures that the fundamental function of the market — mutual advantage — is not violated. Markets do not exist in an economy for some actors to be utilized merely for the benefit of other actors. This, by definition, is unfair.

As Gar Alperovitz notes in America Beyond Capitalism, fundamental and before-the-fact remedies to a society’s economic maladies are preferable to “after-the-fact” approaches. Perhaps the best way to put this is that a just and efficient initial distribution is preferable to piece-meal redistributive measures, such as transfer and welfare programs. Transfer programs are, in some cases, necessary, but structuring an economy such that individuals receive as fair an initial distribution as possible has its advantages. The fair market obviously acknowledges
that an individual’s economic reward must reflect his or her effort. If you are able but unwilling to work, then you are entitled to little. Economic results must reflect how much hard-earned effort a laborer puts into the market. Unlike a laissez-faire market, a fair market also takes other things, such as the Rawlsian argument, into account. The key here is structuring the market such that there is a harmonious balance between economic equality and efficiency: taxes should be structured such that laborers have incentive (such as higher wages) to contribute and work hard in the economy, but that these incentives are low enough to make wages (and government-sponsored transfer programs) more equitable. Consider the NBA players mentioned above. Under a fair market, the tax scheme for NBA players would reflect an “incentive balance point”: it would be such that their post-tax income is high enough that they still decide to play professional basketball (so society still benefits from their talents and abilities) but low enough that more income can be distributed elsewhere, to laborers with a lower earning power. This idea, borrowed partially from Rawls’s difference principle, balances, on a macro level, the creation of wealth with the distribution of wealth. Under the progressive tax scheme outlined above that would often be required by the fair market, wealth creation (economic growth) is only allowed if the lowest class of society (i.e. those endowed with the lowest earning power) stand to benefit. Though this principle still leaves lots to be filled in, it makes the fair market conception attractive because it allows market structuring (tax and property schemes and government systems) to produce a more common sense and fair initial distribution of income and wealth. Though the project requires much government intervention, it can be considered different from typical “market regulation” in that it aims to structure costs and incentives in the market such that the before-the-fact distribution is as fair as possible.

Unlike the laissez-faire market conception, the fair market employs the state in an active attempt to fulfill the fundamental assumptions of the competitive market. This reflects the notion that a competitive market is considered the economic baseline. The assumption of perfect competition is extremely necessary for a market to display sound economic results (for most markets). In light of the fact that laborers stand at an inherent disadvantage in market power, the fair market requires laws and regulations that put laborers on a level playing field. This could be achieved in many ways. First, robust labor laws could be in put in place such that laborers are guaranteed equal bargaining power as employers in the form of fair labor unions (but that unions themselves do not garner unfair market power). Second, firms could be worker-owned such that the laborers are their own employers. Though both measures could plausibly achieve equal market power in the labor market, the latter may be more effective because under it there is an identity, rather than a conflict, of interests between employers and laborers. In sum, a legal system could be explored that would force the micro structure of firms to account for unequal market power in the labor market. The state would also need to have an active role in disseminating market information. Trustworthy and robust consumer agencies would need to be developed that could gather and effectively disseminate information regarding commodities (and their production processes) on the market. Under many modern laissez-faire markets, consumers typically do not have the time or means to do the necessary research required for fully informed purchases. Government programs must seek to help fill this gaping void. These consumer agencies, aided by twenty-first century technology, would have the time and means necessary to provide reliable market information to the consumer. Indeed, this may be the biggest problem with the laissez-faire market environment today. Consumers would jump at the opportunity to have reasonable access to complete market information. Finally, a fair market acknowledges externalities in economic processes, and would seek to reduce market failures. We have already seen measures like this with carbon tax and cap-and-trade measures. Methods like these that create markets for externalities or force market prices to internalize externalities (via a tax), would go a long way towards reducing market failures. This would obviously be limited by the fact that the state could only act in light of externalities that have been identified, but it would nonetheless be a huge step in the right direction. By not conceiving of the market
as autonomous from the society, the fair market is able to utilize the state to achieve the relevant
fundamental assumptions.

Moving from a laissez-faire baseline toward a fair market structure as outlined above
would not be easy and likely would not fix all of the tribulations associated with the market.
The general framework I have begun to sketch is just that: an uncompleted sketch. It offers no
specific policy recommendations, nor does it fully answer the question “how does the market
fit into a scheme of distributive justice?” The conception I have laid out is by no means a cure-
all, and is only a broad starting point. At this point I must reiterate a point that has perhaps
been downplayed throughout this essay: the specific circumstances of various markets are
crucially important. Every market is different and this grand diversity in markets is crucial in
determining exactly how to best structure a market. Still, this general framework does highlight
serious differences with the status quo laissez-faire conception and may be useful in more fully
developing what a fair and efficient market could look like in a just society. By employing the
state to assist in meeting the fundamental market assumptions when necessary, the fair market is
better situated to achieve economic efficiency—that is, it is systematically positioned to achieve
an competitive equilibrium.

This structure is termed the fair market because it places an emphasis on the fairness
that society has a responsibility to ensure. Stiglitz notes, “the freedom to move capital in and
out of a country at will is a freedom that some exercise, at enormous cost to others.”48 This is
just one example that the blind commitment to unrestricted economic “freedom” at the core
of the laissez-faire market conception may be problematic. State interventions in a fair market
“may take away someone’s freedom, but in doing so they may enhance another’s.”49 In a basic
sense, what separates the fair and laissez-faire market conceptions is the acknowledgement
that unrestricted freedoms in the market may have costs for others and that we must structure
exchange in the market to accommodate for this. Though it is far from perfect (and far from
completely just) and still requires further definition, the fair market may be better suited to fulfill
the commitments of a competitive market better than a laissez-faire market itself. Rawls and
others show us that the unregulated market is not a level playing field. A fair market presents
a normative component in that, in addition to being economical, it takes more seriously the
argument that market exchanges must be structured as fairly as possible. In addition to the more
obvious economic goals, political economists must see the force in these moral considerations
as well.
Works Cited


Endnotes

1. I would like to thank Jon Shefner, for whose political economy course I developed the initial draft of this essay. His teaching and advice planted many seeds that have blossomed to some extent or another by means of this essay. I would also like to thank Jon Garthoff, Don Bruce, and Benjamin Compton for their guidance in helping me recognize and flesh out many ideas in the paper, as well as Daniel Aycock and the editors of Pursuit for their assistance in helping me edit and revise the essay. I am indebted to Jon Garthoff in particular for his clarity in sharing Rawls’s work with me over the years.


3. Though “free market” is an ambiguous term, I interpret it here as referring to unfettered markets. In other words, I interpret the phrase “let the free market decide” as the sentiment that the unfettered market should always be left to its natural devices void of government intervention.


5. I follow Gerald Gaus (2008) and Phillip Wicksteed (1946) in using the term “non-tuist” instead of the more robust “self-interested.” Whether or not we must assume rational actors are self-interested, we may at least assume that agents are non-tuist, or “seeking to advance [their own] values and not the values of the other party.” See Gaus 2008. Pp. 46.


9. Other conditions are also assumed, such as negligible transition costs, no barriers to entry, etc. but they are not the primary concern of this essay; excluding their consideration should presumably have no adverse effects on the analysis or conclusions drawn in this essay.


11. Smith also notes: “In all arts and manufactures, the greater part of the workmen stand in need of a master, to advance them the materials of their work, and their wages and maintenance, till it be completed.” This too supports the notion that laborers stand at an inherent disadvantage in the labor market. Smith 1776, Pp. 75.


26. Rawls puts things a bit more generally than my formulation: “Perhaps some will think that the person with greater natural endowments deserves those assets and the superior character that made their development possible. Because he is more worthy in this sense, he deserves the greater advantages that he could achieve with them. This view, however, is surely incorrect. It
seems to be one of the fixed points of our considered judgments that no one deserves his place in the distribution of native endowments, any more than one deserves one’s initial starting place in society.” See Rawls 1971. Pp. 104.

27. In 2011-12, the lowest paid NBA player received a wage of $490,180 annually. See http://www.nba.com/news/cba_minimumsalary_050804.html

28. “The natural distribution is neither just nor unjust; nor is it unjust that persons are born into society at some particular position. These are simply natural facts. What is just and unjust is the way that institutions deal with these facts…In designing institutions they undertake to avail themselves of the accidents of nature and social circumstance only when doing so is for the common benefit.” See Rawls 1971. Pp. 102.

34. Polanyi 1944. Pp. 3.
37. Polanyi 1944. Pp. xxv.
38. Polanyi 1944. Pp. xxv-xxvi
41. Polanyi 1944. Pp. 76.
42. Polanyi 1944. Pp. 75; Walzer 1983.