

# IS COMMERCE GOOD FOR THE SOUL? AN EMPIRICAL ASSESSMENT

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## Abstract

*Numerous empirical studies suggest that market exchange helps (a) create the conditions for liberal values to flourish, (b) refine our sense of fairness, (c) promote cooperation with those who are different from ourselves, (d) develop networks of mutual trust and trustworthiness, (e) generate tolerance and respect towards others, and (f) undermine hostility and conflict in favour of peace. This article reviews this empirical evidence and argues that markets make us better people, morally speaking.*

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## 1. Introduction

The economic case for a market system is so well-established that it is no exaggeration to posit a capitalist consensus within mainstream economics that recognises the growth-enhancing efficiency of an open market economy (e.g. Weil 2013; Krugman and Wells 2015; Mankiw 2015). This broad consensus covers a range of propositions and policies which, while largely uncontroversial among economics experts, runs afoul of popular economic conceptions (Klein and Stern 2006, 2007; Caplan 2007; Sapienza and Zingales 2013; Mankiw 2015, p. 32). Of course, disputes about the proper amount of governmental intervention in the economy continue among economists, but these disputes take an overarching capitalist framework for granted. This consensus cuts across party lines, and as a result economics departments are some of the most politically diverse on American campuses (Cardiff and Klein 2005; Langbert et al. 2016, 2017).

Although the proposition that market liberalisation fosters economic growth is no longer seriously contested among economists, the claim that liberalisation fosters *moral* growth does not enjoy any such consensus. And yet evidence for that viewpoint has been mounting since the turn of the twenty-first century as scholars have tested the relationship between markets and morality. For example, Benjamin Friedman (2005) has argued that historical periods of economic growth fostered greater tolerance and social progress. Deirdre McCloskey (2006, 2010, 2016) has provided considerable historical evidence and philosophical argumentation in favour of what she calls ‘the bourgeois virtues’: the idea that commercial life can be *morally* beneficial, shaping its participants into more virtuous individuals. Jason Brennan and Peter Jaworski have rigorously addressed the anti-market assumptions and biases of many anti-commodification critics, concluding that there is nothing intrinsically corrupting about the market (Brennan and Jaworski 2016; see also Brennan 2014, 2016a). Others have also explored the evolutionary and psychological development of values and their relation to market exchange (Zak 2008).

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This article joins these scholars in their exploration of the association between markets and morality by reviewing empirical studies that suggest that market exchange helps (a) create the conditions for liberal values to flourish, (b) refine our sense of fairness, (c) promote cooperation with those who are different from ourselves, (d) develop networks of mutual trust and trustworthiness, (e) generate tolerance and respect towards others, and (f) undermine hostility and conflict in favour of peace. Of course, it is far easier to demonstrate correlation than causation, and while some studies do find markets playing a causal role in moral development, most simply establish a positive relationship. However, findings that ‘merely’ demonstrate positive correlations should be interpreted in light of the feedback loops: even if moral behaviours are foundational and give rise to market systems (instead of vice versa), market systems in turn reinforce these virtues by imbuing them with value. As Paul Zak (2011, p. 230) explains, ‘Markets are moral in two senses. Moral behavior is necessary for exchange in moderately regulated markets, for example, to reduce cheating without exorbitant transaction costs. In addition, market exchange itself can lead to greater expression of morals in nonmarket settings.’ All in all, the review below will show that there is good evidence for the claim that markets make us better people, morally speaking.

## 2. Cultural values

During the nineteenth century, Karl Marx employed anti-Semitic stereotypes about Jews and their association with money, usury, and markets to criticise the capitalist system. In his 1844 essay *Zur Judenfrage* (‘On the Jewish Question’), Marx declared that (a) ‘self-interest/egoism’ was the very basis of Judaism, (b) money was the *real* God of the Jews, and (c) ‘huckstering/haggling/bargaining’ (*Schacher*) was the *true* Jewish religion. Marx argued that these peculiarly Jewish characteristics and values had now become widespread due to the corrupting influence of the market system (Muller 2010). ‘For Marx’, writes Jerry Muller, ‘Jew-bashing becomes a tool for bashing the bourgeoisie’ (2002, p. 186).

Despite the reprehensible racism underlying the Marxist critique of markets, many adopt a similar mindset. For these anti-market critics, the famous line ‘Greed is good’ from the Gordon Gekko character in the 1987 film *Wall Street* likely captures the essence of capitalist business, or the lack thereof. Yet the available data from the World Values Survey (n.d.) suggest that these claims are mistaken. Social psychologist Jonathan Haidt (2015) provides the following lengthy explanation:

Pre-industrial farming cultures generally have traditional and survival values. .. Life is hard and unpredictable, so you should do your duty, pray to the gods, and cling to your extended family for protection.

But as countries industrialize and people leave the land and enter factories, wealth rises and values shift. First, countries move. .. from traditional/survival values to secular/survival values. When money comes from fitting yourself into the routines of factory production, there’s little time or room for religious ritual. People express materialistic values. .. they want money, not just for security, but for the social prestige it can buy.

... But if you just wait a few generations . . . [s]ocieties transition to more service-based jobs, which require (and foster) very different skills and values compared to factory jobs ... The generation raised with these ‘open minds’ and ‘expressive values’ starts caring about women’s rights, animal rights, gay

rights, human rights, and environmental degradation. They start expecting more out of life than their parents did.<sup>1</sup>

The Fraser Institute's Economic Freedom of the World (EFW) Index, published in its annual Economic Freedom of the World reports, defines economic freedom based on five major areas: (1) size of the central government, (2) legal system and the security of property rights, (3) stability of the currency, (4) freedom to trade internationally, and (5) regulation of labour, credit, and business. According to its 2017 report (which looks at data from 2015), countries with more economic freedom have substantially higher per-capita incomes, greater economic growth, and lower rates of poverty (Gwartney et al. 2017): the very conditions necessary for the cultural shift in values laid out by Haidt above.<sup>2</sup>

### 3. Putting values into practice

However, beyond creating the conditions that make value shifts possible, there is evidence that participation in markets effectively trains us to put these values into practice. Researchers have advanced a number of experimental bargaining games in order to better understand human behaviour. The ultimatum game, for example, provides a certain amount of money to two interacting participants. One participant is given the power to divide the sum between the two. If the other player accepts the division – whether it be 50:50 or 99:1 – then both players keep their share. If the second party rejects the offer, both go home empty-handed. Joseph Henrich (2000) found that proposers from industrial societies (i.e. United States, Indonesia, Japan, Israel) tend to make offers of between 44 and 48 per cent, while the Machiguenga of the Peruvian Amazon only offer 26 per cent. Furthermore, responders from industrial societies rejected offers below 20 per cent as 'unfair' whereas the Machiguenga did not, saying that 'they would always accept any money' and that 'it was just bad luck that they were responders, and not proposers' (Henrich 2000, pp. 976–7). Experiments with 15 small-scale agrarian societies – consisting of hunter-gatherers, horticulturalists, nomadic herders, and sedentary farmers – found that those whose groups were more heavily immersed in trade and market exchange with outsiders were *least* likely to make inequitable offers (Henrich et al. 2001, 2005). Henrich et al. (2004, p. 46) explain,

[E]xtensive market interactions may accustom individuals to the idea that interactions with strangers may be mutually beneficial. By contrast, those who do not customarily deal with strangers in mutually advantageous ways may be more likely to treat anonymous interactions as hostile or threatening, or as occasions for the opportunistic pursuit of self-interest.

### 4. Loving thy neighbour

The results of numerous other studies bolster the experimental research above. Buchan et al. (2009) drew samples from the general populations of Italy, Russia, Argentina, South Africa, Iran, and the United States. Their analysis found that higher levels of globalisation – at both the aggregate country and individual levels – are correlated with greater individual cooperation at the global level in relation to the local level. This suggests that globalisation propagates a more cosmopolitan worldview and a greater willingness to cooperate with persons across the world.

Utilising data from the EFW Index and the World Values Survey, Berggren and Jordahl (2006) ran cross-country regressions with over 50 countries for the years 1995 and 2000. The authors found

that economic freedom – especially a market-friendly legal system with security of property rights – plays a significant and possibly causal role in the development of social capital (trust) within countries. Surveying a host of studies, Jason Brennan (2016a, p. 240) finds that

market societies also tend to be high-trust societies, while nonmarket societies tend to be low-trust societies. Omar Al-Ubaydli, Daniel Houser, and colleagues have shown that ‘priming’ people with words related to markets and trade makes them more trusting, trustworthy, and fair in experiments – that is, when we get people into the market mindset, they become nicer. Mitchell Hoffman and John Morgan found, contrary to everyone’s expectations, that ‘adult populations deliberately selected from two cutthroat internet industries – domain trading and adult entertainment (pornography)’ are ‘more pro-social than [undergraduate] students: they are more altruistic, trusting, trustworthy, and lying averse’.

## 5. Economic freedom vs social trust

Ariely et al. (2015) tested 259 randomly selected German citizens on their willingness to cheat at a die-rolling game. The authors discovered that those who had East German (socialist) roots were twice as likely to cheat as those with West German (capitalist) roots. They also found that the longer individuals were exposed to socialism (i.e. those at least 20 years old when the Berlin Wall fell in 1989 compared with those only ten years old), the more likely they were to cheat.<sup>3</sup> Aghion et al. (2010) argue that low trust predicts support for more government regulation. However, regulation *in turn* generates distrust, consequently lowering parental values of tolerance and respect. Conversely, empirical evidence from 59 countries suggests a (weak) causal relationship between economic globalisation and the willingness of parents to teach their children tolerance (Berggren and Nilsson 2015). More specifically, Berggren and Nilsson’s (2013) analysis of 69 countries finds that economic freedom plays a causal role in fostering tolerance toward homosexuals. Focusing solely on the United States, Berggren and Nilsson (2016) find a similar causality: economic freedom has increased tolerance towards homosexuals, atheists, and communists. Relying on research by economists Betsey Stevenson and Justin Wolfers, Brennan (2016a) emphasises the robust correlation between a country’s GDP per capita and people answering ‘yes’ to the question: ‘Were you treated with respect all day yesterday?’ This indicates that more prosperous – and by implication, more economically free – societies potentially foster greater respect between citizens.

Drawing on the EFW Index, Brennan (2016a) also points to a strong positive correlation between a country’s degree of economic freedom and its lack of public sector corruption. Granted, a lack of corruption could very well give rise to market reforms and increased economic freedom instead of the other way around. However, recent research on China’s anti-corruption reforms (Ding et al. 2017; Li et al. 2017) suggests that markets may actually pave the way for anti-corruption reforms. Summarising the implications of this research, Lin et al. (2017) explain:

Reducing corruption creates more value where market reforms are already more fully implemented. If officials, rather than markets, allocate resources, bribes can be essential to grease bureaucratic gears to get anything done. Thus, non-[state owned enterprises] stocks actually decline in China’s least liberalised provinces – e.g. Tibet and Tsinghai – on news of reduced expected corruption. These very real costs of reducing corruption can stymie reforms, and may explain why anticorruption reforms often have little traction in low-income countries where markets also work poorly. China has shown the world something interesting: prior market reforms clear away the defensible part of opposition to anticorruption reforms.

Once market forces are functioning, bribe-soliciting officials become a nuisance rather than tools for getting things done. Eliminating pests is more popular than taking tools away ... A virtuous cycle ensues – persistent anticorruption efforts encourage market-oriented behaviour, which makes anticorruption reforms more effective, which further encourages market oriented behaviour.

## 6. As a man thinketh

Interestingly, scepticism towards trade and free enterprise appears to go hand in hand with a number of unfavourable attitudes. Studies indicate that prejudice and nationalism play a primary, causal role in American opposition to international trade (Sabet-Esfahani 2014). One study of international survey data (O'Rourke and Sinnott 2001) finds 'patriotism' (defined as a sense of national superiority) and 'chauvinism' (defined as a 'my country right or wrong' mentality) to be positively associated with opposition to global markets across multiple countries. Weiss (2003) finds that anti-capitalist sentiments have strong, negative effects on nationalism and ethnic intolerance among a number of formerly communist countries. With the exception of Austria, 'anticapitalistic sentiments in the post-communist countries have the strongest influence on nationalist attitudes ... [T]he results support the hypothesis that nationalism stems from a resentment against the economic rationalization of society, which is mainly held by people with lower social status' (Weiss 2003, pp. 395–6). Other studies show pro-trade attitudes to be negatively related to isolationism, nationalism, ethnocentrism, prejudice, and a high attachment to one's own neighbourhood (Granzin et al. 1997; Mayda and Rodrik 2005; Mansfield and Mutz 2009).<sup>4</sup> One pair of researchers found that Americans with negative attitudes towards outsourcing suffer from an 'us versus them' world view. They write:

The effects of [isolationism, nationalism, and ethnocentrism] are relatively large and independent of variables associated with self-interest and information. A change from the least globally interventionist attitudes registered by respondents to the polar opposite increases the predicted probability of consistently supporting outsourcing roughly five times. A shift from the least ethnocentric views to the most ethnocentric views increases the predicted value of consistently opposing outsourcing by over 50 percent as well. And a switch from the least nationalistic attitudes expressed to the most nationalistic increases this predicted probability by roughly 25 percent. (Mansfield and Mutz 2013, p. 596)

Arthur Brooks (2006) comes to a related conclusion based on his analysis of survey data: Americans in favour of free enterprise give more to both religious and secular causes than do those who favour governmental redistribution, even when controlled for age, religion, income, gender, marital status, race, political views, and education. They are also more likely to give their time to charitable causes and activities, such as blood donations or giving money to a homeless person on the street. It seems that the mentality of the market is one of tolerance, universalism, and generosity.

## 7. Human rights and gender equality

The evidence provided above indicates that the act of seeking out mutually beneficial exchanges with others expands what Michael Shermer (2015) calls the 'moral sphere'. As this sphere diversifies, our attitudes regarding the vulnerable and disenfranchised tend to alter for the better. This moral

expansion is likely why economic globalisation has been linked to *fewer* governmental violations of human rights, namely torture, extrajudicial killings, political imprisonment, and disappearances (De Soysa and Vadlammanati 2011). An analysis of 117 countries between 1981 and 2006 also found ‘positive effects of market-economic policy reforms on government respect for human rights’ (De Soysa and Vadlammanati 2013, p. 180) as defined above. While these studies seem to imply the market’s influence on human rights, there is also evidence that human rights boost market liberalisation. Utilising the CIRI Human Rights Data Project (which reports on extrajudicial killings, disappearances, torture, political imprisonment, freedom of speech and government censorship, freedom of religion, freedom of movement and migration, freedom of assembly and association, free and fair elections, workers’ rights, and women’s rights), a 2010 study finds that human rights abuses ‘actually reduce the pace of economic liberalization’ (Carden and Lawson 2010, p. 12). These studies seem to confirm that morals and markets create a positive feedback loop regarding human rights.

To narrow our focus, Stroup (2008) finds that the level of economic freedom yields a stronger beneficial net impact than democracy for four measures of women’s absolute well-being (life expectancy, literacy rate, fertility and contraception use by women) and four measures of relative gender equality (female to male ratios of life expectancy rates, literacy rates, secondary education enrolment and labour force participation). Furthermore, Stroup (2011) measures the effects of economic freedom on the United Nations Development Project’s five components of women’s well-being,<sup>5</sup> concluding that economic freedom improved all five between 1995 and 2008. Neumayer and De Soysa (2007) find that increased trade openness reduces forced labour among women and increases their economic rights (e.g. equal pay for equal work, equality in hiring and promotion practices, right to gainful employment without the permission of a husband/male relative). Analysing global data between 1981 and 2007, they also find that increased trade openness improves not only economic rights but social rights (e.g. right to initiate a divorce, right to an education, freedom from forced sterilisation, freedom from female genital mutilation without consent) as well (Neumayer and De Soysa 2011).

In 2017, the Fraser Institute adjusted Area 2 of its EFW Index – Legal System and Property Rights – to account for gender inequality (Fike 2017). This new Gender Disparity Index (GDI) draws on the World Bank’s *Women, Business, and the Law* reports and includes the following variables: (1) freedom of movement, (2) property rights, (3) financial rights, (4) freedom to work, (5) contracting freedom, (6) business freedom, and (7) legal status (Fike 2018). Complementing the research above, the adjusted EFW Index finds that women in countries with high levels of economic freedom experience greater well-being in a number of areas than those in countries with low levels of economic freedom (Fike 2018):

- Women in economically free countries are nearly twice as likely to participate in the labour market.
- Women in economically free countries are three times *less* likely to work in vulnerable occupations.
- Women live 17 years longer, on average, in economically free countries.
- The share of women earning salaries is three times higher in economically free countries.
- The literacy rate for adult women is, on average, 50 per cent higher in economically free countries and 30 per cent higher for adolescents.
- Women in economically free countries are over three times more likely to have a bank account.

In the case of women's rights and well-being, it appears that market expansion also results in moral expansion. As Loisel and Dery (2016, p. 2) put it,

Economic freedom is desirable not only because it makes people from all walks of life richer, but also because it goes hand in hand with nearly all of the humanitarian goals that are not strictly speaking economic. The well-being of women around the world illustrates this connection very well. For all of these reasons, it is an economic notion that should be at the heart of development policy.

## 8. Violence

In *The Better Angels of Our Nature*, Steven Pinker (2011) documents the decline in violence and war throughout history. One of the reasons offered for this decline is 'the Capitalist Peace'. In essence, trade and business openness largely reduces the incentives of war and brutalisation. People become more valuable alive and able as potential partners, lenders, investors, and customers. The late Milton Friedman (2006, pp. 38–9) explained, 'The great virtue of the free market is that it enables people who hate each other, or who are from vastly different religious or ethnic backgrounds, to cooperate economically. Government intervention can't do that. Politics exacerbates and magnifies differences.'<sup>6</sup> Yet democracy is often credited as the major source of civil and international peace. However, Eric Gartzke (2007) provides evidence that it is market integration rather than democracy that reduces the risk of militarised interstate disputes. While still somewhat controversial, solid evidence continues to mount in favour of the capitalist peace theory.

Using data from the World Bank's *Doing Business* rankings and the EFW Index, Michael Strong (2009) finds a close connection between peace, economic liberalisation, and business-friendly environments. As a case study, Strong looks to Northern Ireland between 1975 and 2000, concluding that increased economic freedom, the consequential economic boom, and the decrease in violence were interconnected. Strong (2009, p. 532) summarises his findings:

[W]hether one looks at the *Doing Business* rankings, which provide a narrow focus on the obstacles to indigenous entrepreneurship, or Fraser Economic Freedom rankings, which provide a broader measure of business environment that benefits both indigenous entrepreneurs and multinational corporations, there is a close fit between those nations that are regarded as peaceful and those nations that provide a positive environment for business.

Using a data set of 243,225 country-pair observations from 1950 to 2000, Lee and Pyun (2016) find that the probability of interstate military conflict is reduced with an increase in bilateral trade interdependence and global trade openness. However, proximity matters, seeing that bilateral trade has a greater peace-promoting effect for neighbouring countries, while global trade openness has a greater effect on more distant countries. After analysing data spanning from 1970 to 2005, De Soysa and Fjelde (2010) find that higher economic freedom lowers the risk of civil war, more so even than democracy and good governance. This remains true after variables such as income per capita, growth rates, total population, ethnic fractionalisation, and oil exportation are controlled for. Yet these results likely underestimate the total impact of economic freedom on civil war. 'In reality', write De Soysa and Fjelde (2010, p. 293), 'the effect of economic freedom on peace is likely to be larger if we also take into account the indirect effect of economic freedom through its impact on income growth'.

These findings correspond with a later study by De Soysa and Flaten (2012), which controls for the same variables and finds that higher levels of globalisation (particularly economic globalisation) reduce the risk of civil war as well as state violations of human rights. Other research finds that free-market conditions and economic liberalisation are associated with lower levels of various societal insecurities, including open armed conflict, violent crime, murder, societal militarisation and political instability (Stringham and Levendis 2010; De Soysa 2011, 2016; Bjornskov 2015).<sup>7</sup> Various organisations from the World Economic Forum (2016) to the UN Global Compact (2014) are recognising the power commerce has to decrease conflict and establish peace. The UN Global Compact's founder and former Executive Director Georg Kell beautifully conveys the reason *why* business is such an important player in the promotion of peace:

Given its role in building economies, mobilizing people around a shared purpose and pioneering cross-cultural management styles, business has an important stake in promoting intercultural and interreligious understanding. Successfully managing diversity and fostering tolerance and understanding – among employees, consumers and other stakeholders – is increasingly essential for long-term success. (UN Global Compact 2014, p. 4)

Market liberalisation can also have indirect effects on war and violence. For example, Neudorfer and Theuerkauf (2014) explore the effects of public sector corruption on ethnic violence by analysing 81 to 121 countries between 1984 and 2007. They find that corruption has a robust positive effect of corruption on the risk of ethnic civil war. When the evidence provided in the previous sections by Brennan (2016a) and Lin et al. (2017) is considered, we find that market liberalisation deters corruption and, consequently, ethnic violence. Similarly, the authors of *Sex and World Peace* argue, 'Gender serves as a critical model for the societal treatment of difference between and among individuals and collectivities ... Societally based differences in gender status beliefs, reflected in practices, customs, and law, may well have ... consequences for nation-state security policy and for conflict and cooperation with and between nation-states' (Hudson et al. 2012, pp. 96–8). They find a 'strong and statistically significant relationship between the physical security of women and ... the peacefulness of states'. In addition, the practice of polygyny, inequitable family law biased towards men, and 'a high level of discrepancy between state law and societal practice concerning women, are also associated with lower levels of state peacefulness in a strong and significant manner' (2012, p. 114). In sum, gender inequality perpetuates state insecurity and war. Given the positive relationship between economic freedom and gender equity demonstrated in the previous section, it is reasonable to conclude that commerce and trade reduce state violence and international conflict in part by improving the lot of women.

## 9. Conclusion

Herbert Gintis (2012) declared, 'Movements for religious and lifestyle tolerance, gender equality, and democracy have flourished and triumphed in societies governed by market exchange, and nowhere else ... The notion that the market economy makes people greedy, selfish, and amoral is simply fallacious.' As a social institution that encourages participants to satisfy the needs of others in order to survive and grow – what Nate Oman (2016, p. 44) calls 'other-regardingness' – the market



helps mould the moral norms of both individuals and societies alike. This brief overview of the empirical literature demonstrates that commerce shapes these moral norms for the better. As the outreach of markets continues to cross borders, it is reasonable to assume that the world will continue to become a more liberal, fair, cooperative, trustworthy, tolerant, and peaceful place.

## Notes

1. Haidt's explanation goes a long way in unpacking research like Shahrier et al. (2016) since countries like Bangladesh are still developing and score highly in traditional and survival values.
2. A few psychological studies suggest that some forms of corporate capitalism breed materialism (Kasser et al. 2007; Schwartz 2007), which leads to deterioration of personal and social well-being (Kasser 2002; Dittmar et al. 2014; Kasser et al. 2014). However, these studies do not compare capitalist countries with non-capitalist countries. Instead, they parse differences between 'competitive' and 'strategic' economic coordination among *capitalist* countries, most of which score highly on the EFW Index.
3. One of the reasons offered for socialism's erosion of honesty among East Germans is the incentive to work around corrupt government laws. De Soysa (2017) finds that predatory governments encourage black-market activities, which ultimately invest in 'rebellion-specific capital'. These shadow economies provide the lifeblood for rebel forces and the duration of civil conflicts. Previous studies (Ockenfels and Weimann 1999; Brosig-Koch et al. 2011) have also found a solidarity gap between West and East Germans, with the latter being less generous in laboratory games.
4. Other factors have considerable influence as well, including education, union membership, and perceptions of how trade affects the US economy. However, isolationism, nationalism, and ethnocentrism largely account for the effects of education. There is also little evidence that self-interest plays a role in attitudes towards trade.
5. These five components are divided into three main categories: Reproductive Health (maternal mortality and adolescent fertility), Empowerment (female parliamentary representation and educational attainment), and Labor Market (female labour force participation rate).
6. For evidence of Friedman's claims regarding the divisive and corrupting nature of politics, see Brennan (2016b, ch. 3).
7. According to Jakobsen et al. (2013), higher per capita income lowers the risk of civil war by increasing the cost of rebellion. The wealth dimension – per capita income, poverty, agricultural GDP as a share of total GDP, and social security as a share of GDP – is also shown to be the most important underlying cause of civil war. This falls in line with Haidt's explanation of shifting cultural values.

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