

# Beyond Utility: Providing a Moral Foundation for Capitalism

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## Abstract

Empirical studies have legitimized many arguments in support of economic liberty. If those who favor free markets are “winning” the statistical argument, why have they failed to move other people and public policy toward their vision of economic freedom? The problem is caused by a failure to promote capitalism’s moral foundation. Capitalism is not a necessary evil; it is a moral necessity, and it should be treated as such. Three groups pivotal to liberalism’s future success—economists, philosophers, and public intellectuals—need a change in approach and an opening of discussion.

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*“Capitalism is perishing for a lack of a moral base and of a full philosophical defense . . . No man, and no movement, can succeed without moral certainty—without a full, rational conviction of the moral rightness of one’s cause.”*

— Ayn Rand (1967a, p. 218)

## I. Introduction

Empirical studies have legitimized many arguments in support of economic liberty. If those who favor free markets are “winning” the statistical argument,<sup>1</sup> why have they failed to move other people and

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<sup>1</sup> Throughout this article, the terms “capitalism,” “free markets,” and “liberalism” are used interchangeably. They all refer to a social system that respects individuals’ negative rights. These terms do not denote a system that is pro-business (such as cronyism or mercantilism). They rather stand for the real-world manifestation of the belief that people are sovereign, free individuals who own and direct their lives. Mutual consent and the absence of the initiation of physical coercion are pillars of

public policy toward their vision of economic freedom? As evidence of this failure, since the year 2000, the United States has fallen from the world's second-freest economy to the fourteenth, according to the Economic Freedom of the World Report's chain-linked summary ratings (Gwartney, Lawson, and Hall 2014).<sup>2</sup>

The answer to why free-market proponents are failing lies in ethics. Supporters of liberalism need to focus on arguments that value liberty as, or as integral to, an ethical end, and not solely as a means for monetary utility. In this paper, monetary utility means evaluating preferences through and basing arguments in solely monetary terms. This view fails to account for the range of other factors that strongly influence individuals' values. Monetary utility also fails to account for the fact that individuals value different goods at varying levels. People seek moral justifications for their actions, and if there are not strong ethical arguments in favor of liberty, people will be hesitant to accept it as a value—much less a primary value. In this moral vacuum, arguments that treat individuals' negative rights as violable have gained influence.<sup>3</sup> The outcome of this debate is essential to liberalism's future, as it informs the arguments used in support of capitalism.

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this system, and the only legitimate actions a government may take are those that protect individuals' negative rights.

<sup>2</sup> These findings are echoed by the Index of Economic Freedom, in which the United States has fallen to the twelfth most-free economy from the seventh most-free economy since 2000 (Miller and Kim 2014).

<sup>3</sup> Whenever the term "rights" is used in this article, it is meant in the negative sense. Negative rights hold that the initiation of coercion is incompatible with a moral social order, and coercion is defined as the initiation of physical force. Negative rights are required for liberalism since they allow people to live according to their own choosing while having their life, liberty, and property protected.

Positive rights, on the other hand, cannot support a foundational system of liberty. Positive rights hold that there must be some goods or liberties that people are provided with—at the expense of others' negative rights—in order to live properly. Arguments for positive rights are not solely utilitarian since they can be based in natural law. However, positive rights are not consistent as foundational principles.

The problem with positive rights is that they do not provide a neutral basis to settle disputed claims. Whose right wins out in the case of someone's negative right to keep their income or someone's positive right to be provided with shelter? What about one person's positive right to be provided with shelter or another's positive right to be given food? Any "right" of one person that requires the violation of another's right cannot be a true right. Negative rights do not encounter this problem since they are rights of forbearance, not provision. They only require abstaining from initiating physical force against another person.

This article questions the effectiveness of monetary utility arguments through assessing why the movement for limited government is failing. Specifically, it seeks to provide evidence against *homo economicus*, while supporting *homo moralis*—meaning humans are not monetary utility calculators, but instead are heavily influenced by moral convictions. I discuss problems with the prevailing approach to justifying capitalism and give special attention to treating capitalism as a necessary evil instead of a moral necessity. I also discuss issues with macroeconomic models of human behavior and the nature of rights. The proposed cure is to support capitalism on solid moral foundations, and I present two ethical theories based in virtue ethics that exemplify this superior approach.

This article is not a fully supported philosophical refutation of specific ethical theories nor a complete moral defense of liberalism. It would be far beyond this article's scope to provide a detailed plan of action for how to successfully bring about a society based on free-market principles. Instead, what this article argues is that three groups pivotal to liberalism's future success—economists, philosophers, and public intellectuals—need a change in approach and an opening of discussion.

## II. Disproving *Homo Economicus*

To illustrate the power of perceived moral violations, Duke University philosophy professor Michael Munger recounts a story from the aftermath of Hurricane Fran in his home state of North Carolina. The category 3 storm left more than a million people without power in 1996. With temperatures above 90 degrees, people were in dire need of ice.

As Munger recounts, “There were no generators, ice, or chainsaws to be had, none. But that means that anyone who brought these commodities into the crippled city, and charged less than infinity, would be doing us a service (Munger 2007).”

Four young entrepreneurs did come. They loaded their trucks with ice from a part of the state that was not experiencing the shortage and headed off to the affected areas. After setting up, they began selling the ice for around \$8 per bag—far higher than their purchase price of just over a dollar per bag. While some people complained, they realized the benefit and still purchased the ice.

When police showed up, they arrested the young men for price gouging. Munger could not believe what happened next: those waiting in line clapped and cheered as the young men were led away

in handcuffs. They celebrated even though they were being made materially worse off. They needed ice and had the opportunity to buy it, but, because of the arrests, they remained without ice. While being protected from high prices, they were also “protected” from the option to purchase ice at all. The question remains: Why did they clap?<sup>4</sup>

The answer lies in what people perceive to be fair, just, or right; in other words, the answer lies in ethics. People must view the results of free markets as morally permissible; otherwise, they will reject market principles even if they are passing up monetary gain by doing so. People crave moral justifications for their actions and will often act in ways they view as right or just even when they are monetarily harmed. Sadly, common defenses of free markets are often based in monetary utility, not morality.

Experiments show that people will turn down monetary gains when they feel situations are immoral. The late economist and Nobel laureate Elinor Ostrom brought up ultimatum games in her writing to demonstrate this point (Ostrom 1998, pp. 11–12). In these games, two players divide a sum of money. The first suggests a division to the second, and the second decides whether to accept or reject. If the second accepts, both parties receive their respective funds. If the second rejects, neither party receives anything.

On a purely monetary basis, the first player would offer a small amount to the second since any amount greater than zero would be rational for the second to accept. However, real-world experiments show this is not what happens. The first players often offer more, an amount deemed to be “fair.” If they do not offer an amount close to equal shares, the second players often reject the proposed sum. People do not always act as monetary utility maximizers. Unsurprisingly, basing arguments and models on the assumption that they do does not work well.

People act in ways they perceive as moral even in the very private act of voting. Research has shown that the self-interested voter hypothesis is wrong: people do not vote for the policies that will bring them the greatest monetary benefits. There is a weak connection between individuals’ incomes and their party affiliation, and the elderly do not favor Social Security and Medicare at a higher rate than the young. Instead, people support policies they see as

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<sup>4</sup> For further discussion on the negative economic effects of price gouging laws, see Meyer (2013).

morally required and consistent with justice (Caplan 2011, pp. 148–50).

When people view markets as immoral or as a necessary evil, they will not hesitate to discipline those who benefit from markets if they see the gains as unfair (Quervain et al. 2004; Kahneman, Knetsch, and Thaler 1986). Unless their sense of fairness is informed by strong moral defenses of markets, there is little hope to secure a liberal society.

The so-called punishment hypothesis is one explanation for these findings. Research has shown that unaffected third parties are willing to enforce what they view as moral norms, even when it comes at a direct cost to them (Fehr and Fischbacher 2004). This research helps explain why many who view “capitalistic acts between consenting adults” as morally abhorrent go out of their way to impose their views on others. These findings further show that creating a moral foundation is necessary for liberalism to flourish. In the face of overwhelming evidence, this proposal should not be controversial, and it is rarely taken to be. However, even though proponents of free markets claim to understand the need for a moral foundation, many fail to advocate such a basis. As Texas Tech University economist Edward Stringham argues, “Even though the homo economicus assumption is being overturned by a plethora of research, the normative prescriptions advocated by many economists have not caught up (2011, p. 100).”

### **III. It's More Than the Economy, Stupid**

For Milton Friedman, a society is justified by its power to create wealth, and a free society fares better than a compulsory one. For Friedrich Hayek and Ludwig von Mises, a society is justified by its wealth-generating power, and an individualized society is superior to a collective one. As philosopher Stephen Hicks argues, for these economists, creating wealth is the end, free individuals are direct means, and capitalism is an indirect means (Hicks 2013). However, is individual freedom justified only to the extent it increases social wealth? Treating freedom as such downplays the moral significance of a social system based on mutual consent and individual rights.

The arguments of influential economists, including those just mentioned, are of great use in providing supplemental evidence to already consistent theories, but they are not fully formulated moral defenses on their own. Proponents of liberty must realize that economists, in their roles as such, do not replace ethical

philosophers. Economics is well-suited for evaluating situations with respect to appraising means, but not ends. However, value-free economics is not sufficient to promote a moral argument for a society.<sup>5</sup>

Moral claims are intertwined into most commentary from the political left. They argue, “We must pursue a certain policy because its intended outcomes are morally required.” This line of argumentation has predictably proven more persuasive than, “We should pursue a certain policy because it leads to economic growth.” While both these examples are gross simplifications of more advanced arguments, their essences are the same, and it is not surprising which is more convincing.

Why does the American political left spend so much time talking about fairness or equality? A typical opinion article by Paul Krugman, Noble laureate in economics, usually has more moral statements than economic arguments.<sup>6</sup> He uses the power of these moral claims to argue in favor of reducing negative economic rights.

Amartya Sen, another Nobel laureate and proponent of positive rights, has succeeded in appealing first to morals and second to markets (Sen 1999). As philosopher Douglas Den Uyl states, “Modern welfare state liberalism has more or less put economics in the service of ethics by appealing to values such as justice, fairness, well-being, and equality” (Den Uyl 2009 p. 350).

People do not act without reason. As Mises (1949) wrote, humans do not simply act; they act purposefully. All actions can be viewed as volitional attempts to create more satisfactory states. People recognize a set of norms they use to structure their rationality and then work to follow those norms. Whether they are consciously aware of these beliefs or not, people have a general philosophical sense of existence and morality that informs their recognized norms.

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<sup>5</sup> Edward W. Younkins illustrates this point in his book *Flourishing and Happiness in a Free Society* (2011) by showing the compatibility between Objectivist ethics and Austrian economics.

<sup>6</sup> Paul Krugman has stated in his articles published in the *New York Times*, “The long-term unemployed will be cut off, thanks to a perfect marriage of callousness—a complete lack of empathy for the unfortunate—with bad economics” (December 8, 2013); “There is indeed a war on the poor, coinciding with and deepening the pain from a troubled economy. And that war is now the central, defining issue of American politics” (October 31, 2013); and, “Something terrible has happened to the soul of the Republican Party . . . at this point we’re talking about a state of mind that takes positive glee in inflicting further suffering on the already miserable” (July 14, 2013).

Communitarian philosopher Alasdair MacIntyre, similar to Krugman and Sen, uses this ethical insight to support arguments against negative rights. As MacIntyre argues, these beliefs directly inform actions. He says, “There ought not to be two histories, one of political and moral action and one of political and moral theorizing, because there were not two pasts, one populated only by actions, the other only by theories. Every action is the bearer and expression of more or less theory-laden beliefs and concepts; every piece of theorizing and every expression of belief is a political and moral action” (1981, p. 62).

To clarify, arguments based on emotion are not opposed to arguments based in reason. Emotions, when correctly informed by reason, are powerful tools of both interpersonal and personal action. However, often, those in favor of capitalism fail to provide systematic moral foundations from which people can use reason to justify intuitions that unprovoked state interventions in the economy are wrong.

One only needs to examine how some individual freedoms such as religious liberty, freedom of speech, and voting are protected as fundamental rights by the courts and viewed as such by the public, whereas nonfundamental rights are not given meaningful legal protection or public respect. These nonfundamental rights include such economic freedoms as earning a living, eating the foods people want to eat, having private property rights not be violated, or seeking life-saving medical treatment—important factors in living a successful life. Strict scrutiny, the most stringent judicial review standard, is applied to cases concerning possible violations of fundamental rights. This standard requires the government to justify its actions as the least restrictive means to achieve a compelling government interest. Alternatively, the rational basis standard, which is applied to nonfundamental rights, is the lowest level of judicial review, and judges are directed to act as advocates for government action, not neutral arbitrators (Neily 2013, pp. 33–48).

The cases fought by the American Civil Liberties Union (ACLU) show the persuasion of moral claims to individual rights. Why does the ACLU fight against surveillance by the National Security Agency while ignoring the injustice of occupational licensing laws?<sup>7</sup> Individual freedom has been improperly separated into personal and economic

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<sup>7</sup> See *American Civil Liberties Union v. James R. Clapper*, “Complaint for Declaratory and Injunctive Relief,” United States District Court, Southern District of New York, June 11, 2013.

freedoms when they are one and the same. Their divergent paths in public acceptance illustrate the convincing power of moral arguments.

Another problem with overreliance on utilitarian arguments for both personal and economic freedoms is that many are wholly unconvinced by the merits of utilitarianism from the beginning. Many academic philosophers find greatest-good theories, even those that treat the greatest good as more than monetary utility, unsatisfying, and so does the general public.<sup>8</sup> If markets are primarily promoted on this basis, a sizeable portion of the population will remain unconvinced that there is any reason to accept, much less fight to protect, market principles. When provided the option, people will subvert economic freedom to other perceived moral priorities.

Those who rely on utilitarianism can only state that they are unconvinced by another system's merits. Utilitarians must remain open to the possibility that another system could produce more desirable results.<sup>9</sup> The question to ask is, "Would you still support free markets and individual liberty if a centrally planned, dictatorial society led to a wealthier society?" The answer to this question confirms whether one relies on monetary utility or moral foundations to support capitalism.

Utilitarian calculations also ignore the question of whether overall good can be quantified when what is good for specific individuals is sufficiently varied. Similar to economic exchanges, people value diverse aspects of living the good life differently. Basing arguments on monetary utility analyses is not simply ineffective; doing so is also an incomplete practice of economics. Money is one lens to measure subjective value through, but people value far more than what monetary measurement can capture. Confining evaluations of human behavior to a single aspect of value is a limited approach to take. There are many ways of living and goods to be pursued, and it is improper to sacrifice one person's good in order to pursue perceived greater overall utility.<sup>10</sup>

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<sup>8</sup> This article discusses concerns about the treatment of monetary utility as the greatest good to be pursued without a concern for, or defense of, the moral principles that underpin it. It would be far beyond this article's scope to directly attack utilitarianism. While utilitarianism has problems as an ethical theory, there are more developed forms, such as rule utilitarianism, which are superior to simple act utilitarianism (Rawls 1955).

<sup>9</sup> For a succinct argument against ethical utilitarianism, see Grisez (1978).

<sup>10</sup> The individual nature of human flourishing is discussed in greater detail in the following section, "The Un-Self-Directed Life Is Not Worth Living."

Philosopher Gregory R. Johnson argues that there are two ways to make the case for capitalism. The first is the moral approach, which this article has advocated for, and the second is the technical-scientific strategy. The technical-scientific strategy can be found in two distinct forms, termed “positivism” and “moral minimalism” by Johnson. He states, “Positivism denies or ignores the necessity of moral consideration in political philosophy . . . positivistic political science can tell us what *is* and what is *possible*, but cannot recommend what *ought to be*” (emphasis in original, 1995, p. 335). For obvious reasons, this is not a useful position for advocates of free markets to adopt.

While few go so far as to say there is no morality in political economy, more theorists attempt to minimize the moral difference between the two sides. This is called the “moral minimalism” form, and Johnson includes Hayek and Friedman in this group. This approach is a type of utilitarianism because the argument’s thrust relies on the economic consequences of different policy proposals.

Conflating the principles of ethics and those of the market is not much better as a persuasive and foundational moral justification than completely ignoring the question of ethics. While moral principles need not conflict with the actions of free market participants, acting in one’s economic self-interest while simply not violating the negative rights of others falls far short of human flourishing.<sup>11</sup>

In times of crisis, people who support liberty based on utilitarian grounds will quickly abandon their principles to support a perceived common good. As Enrico Colombatto, a professor of economics at the University of Turin, Italy, argues (2011, p. 9), “Abandoning the standard of efficiency (‘it is good because it works’) and replacing it with that of justice (‘it is good because it does not violate natural rights’)” is important to the success of liberalism.

In the aftermath of the 2008 financial crisis, policymakers, including President George W. Bush, Treasury Secretary Hank Paulson, and Federal Reserve Chairman Alan Greenspan, abandoned free market principles and took actions that they thought would maximize monetary utility out of a belief that they could, and should, do something. While market interventions are common in modern-day government, the sense of panic that accompanied the crisis overshadowed any commitment to the moral principles that support capitalism. This is the predictable outcome of an atmosphere

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<sup>11</sup> For further support of this point, see Hospers (1995, pp. 39–76).

emphasizing economic efficiency and results over inviolable moral principles.

#### **IV. With Friends Like These, Who Needs Enemies?**

Many self-styled “conservative” commentators view capitalism as a necessary evil: one to be tolerated for some often-undefined ends. This defense is not a defense at all. As Greg Foster, a conservative commentator, writes, “If people believe that something is evil, the response ‘But it works!’ doesn’t win arguments” (2009).

Objectivist philosophers Yaron Brook and Don Watkins correctly observe, “When one goes looking for a moral defense of free markets by capitalism’s defenders, what one finds, by and large, are moral *attacks*” (2012, p. 42).

When the free market is not producing desired results, the inclination championed by many market “defenders” is to compromise on principle in subservience to a perceived greater good. Hayek’s account of spontaneous order and statement of the knowledge problem make it clear that the free market will rarely, if ever, produce results exactly as desired (Hayek 1948).

Even if ethics and market values are related, they will inevitably come into contact for some individuals. When they do, there must be a system to decide which emerges victorious. Human nature shows that moral values will usually win out. This is one reason harmful economic regulations concerning prices, wages, and trade are common. As Senator Elizabeth Warren (D-MA) argued in 2013, “Hardworking men and women who are busting their tails in full-time jobs shouldn’t be left in poverty. It’s long past time to raise the minimum wage.” Proponents of these antimarket regulations frame the debate in terms of fairness or equity, while those who argue against them too often rely on negative monetary effects.

This does not have to be the case. Capitalism can be defended as what it is: a moral necessity, not a necessary evil. The “system of natural liberty,” as Adam Smith termed a social order based on free markets (1776, p. 687), is the only system that recognizes the negative natural rights derived from human agency. This is why socialism, authoritarianism, pure democracy, and other systems of institutionalized coercion are immoral. They thwart human nature by sacrificing the agency of some to provide others with some externally determined good.

The feeling of injustice over the distribution of economic goods in society does not mean markets themselves are unjust. If a situation

comes about through mutual voluntary exchanges, there is no one particular person who has been unjust. On this point, Hayek was correct. He says, “Society has simply become the new deity to which we complain and clamor for redress if it does not fulfill the expectations it has created” (1976, p. 69).

Society is not an acting moral agent, only the culmination of individual actions, and there are no principles of individual conduct that would produce a pattern of distribution or externalities that could be correctly called just or unjust. While it may be cathartic to blame society for personal ills, it is not possible to say society has acted unjustly, since society is nothing more than a group of individuals, and those individuals have no way of knowing how their actions will influence the end distribution. To put it another way, justice cannot be applied to circumstances that have not deliberately been brought about by a person.

Business in the *laissez faire* sense (not mercantilism or cronyism) deals with the natural phenomena of scarcity, insatiability, and cost efficiency. This system also creates equality of opportunity and rewards those who anticipate consumer preferences and efficiently recombine resources to create value. There is no need to apologize for a system such as this where people treat each other as traders, freely exchanging value for value. Free economic exchanges are indeed mutual trades of value because economic value is subjectively determined. Buying and selling takes place precisely because individuals value goods and services differently.

Ayn Rand suggested that the sins of modern-day conservatives are far worse than those of modern-day liberals. This is because conservatives are afraid to proclaim that they are champions of freedom. As she stated (1967a, p. 216), “What is the integrity of those who outdo their enemies in smearing, misrepresenting, spitting at, and apologizing for their own ideal?” She came to a conclusion similar to this article’s and would have supported the assertion that capitalism is failing because it lacks a moral base and philosophic defense.

This is one reason why contemporary liberals are able to call themselves progressives when what they advocate is the ancient system of subjecting one’s life to others. Those who favor capitalism, the truly progressive system, are called conservatives since they fail to articulate how radical the belief that an individual owns his or her life is.

Rand spoke of three approaches that were replacing the moral defense of markets among proponents: religion, faith, and tradition. While these approaches still hold sway, a new approach, stemming from the influence of modern macroeconomic theory, has emerged: monetary utility.

## **V. The Fatal Conceit: Macroeconomics**

While those who support free markets are far less enamored by modern macroeconomic equations than those who favor state intervention, they are nevertheless influenced by its method. Results, not principles of action, are commonly evaluated, lending credence to utilitarian arguments. However, it is not the ends of an action that justify government involvement, but the means. That is, an outcome is not worthy of outside intervention unless someone's negative rights were violated, regardless of the final distribution.

It is odd that those who favor state intervention over markets rely on moral arguments that trigger emotions while also utilizing macroeconomic models, which are purported to be entirely value-free and statistically based. One explanation could be the inherent problem with attempting to model human action. The assumption is as follows: the more control governments exert over individuals, the easier it is to predict how they will act. People, when left to their own devices, are full of diverse ideas, perspectives, and motivations. Free choice is something no mathematical model can accurately predict. If we want predictability, free choice must be curtailed.

The good intentions of central planners and policymakers cannot guarantee the envisioned outcomes that individuals' rights are subverted in pursuit of. What is unseen, as nineteenth century French political economist Frédéric Bastiat observed, is often overlooked, leading to unintended consequences (Bastiat 1848, p. 1). Even when what is not seen is taken into account, a perfect picture of outcomes cannot be deduced as long as individuals have freedom to choose. If policymakers permit any semblance of liberty, there is no chance of predicting the exact outcomes of actions, no matter how complex one's mathematical models are.

Despite the wishes of some economists and policymakers, the real world is much more complex than neoclassical economic models suggest. There is no optimal set of government regulations and punishments that can make all people behave as one desires. This is one reason why courts are only able to effectively enforce minimum standards of quality. It is neither possible nor cost effective for

parties to specify every detail in a contract; a level of trust is vital for free exchange. Most interpersonal actions people undertake are not governed by externally enforced contracts and the threat of punishment that accompanies them, but rather by social norms that stand outside of the legal framework. People differ in their valuations of goods and services, making third party enforcement of unwanted behavior even more difficult. Yet, people still tend to cooperate with one another and a semblance of order emerges. James Buchanan referred to this phenomenon as “ordered anarchy” (1994, p. 132). What this means is that moral (internal) constraints on actions are just as necessary as external constraints for a functioning market economy. Economists who ignore this reality are missing at least half the picture.<sup>12</sup>

The difficulty of predicting end states based on the mix of external constraints is another area where the works of Hayek and Mises provide value. Hayek showed how knowledge is individually based and, when people are free to act upon their knowledge, a wealth of ideas, innovations, and creativity freely flows (Hayek 1948). Mises showed that economics allows for the deduction of general principles of human action, such as the universal axiom that humans act (Mises 1949). While deducing general principles does not allow for in-depth modeling of future behavior, it does provide a foundation for how a society should be structured based on human nature. The tendency of macroeconomists is to quantify, but this is difficult since people do not always act rationally, especially in the monetary sense. Because of this, there is no real macroeconomics; there are only microeconomic principles applied on a large scale.

Even those in public policy who, similar to the general public, desire moral justifications for what they advocate experience a sort of Stockholm syndrome when they enter the profession. They are worried about their careers being held back by those who subscribe to and support incompatible moralities or economic theories. Johnson makes a similar argument for academics that is especially applicable to economists and political economists. People start to identify with their “captors” and seek their approval (Johnson 1995, p. 337). They work within the broken system of treating economics as a branch of physics instead of trying to reform it.

Those who dare venture into providing moral defenses for markets are effectively snubbed by public intellectuals. While

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<sup>12</sup> See Stringham (2011) for further discussion on this topic.

mentions of Milton Friedman, Friedrich Hayek, Frédéric Bastiat, and Gordon Tullock are acceptable in some publications, bringing up Ayn Rand or Murray Rothbard is a faux pas. Refusing to defend influential free-market thinkers creates a vicious cycle where the public becomes less aware of the theorists and sees only caricatures of their views, often presented by people who have never seriously read their works. This outcome is unfortunate because public intellectuals perform a vital role in shaping opinions and are essential to the success of any movement (Hayek 1949).

Ethics is based on the defining and essential characteristics of human nature. Economics studies human action and is thus humanistic in its essence. Attempting to subvert economics to a mathematical model of matter and motion, as the physical sciences study, is an insult to the natural human attributes of free choice and individuality.

## **VI. Ayn Rand, Defender of the Individual**

For Rand, a society is justified by its protection of freedom. This means protecting individual freedom is the end; capitalism is the means. Her moral theory of self-interest is derived from man's nature as a rational being who is an end in himself. What is good is an evaluation made by one's consciousness, informed by the facts of reality, which leads to the promotion of life. Obtaining objective knowledge of both facts and values is possible since concepts are produced by a person's consciousness in accordance with reality.

According to Mises, economics is a value-free science of means, not ends, that describes but does not prescribe. Although praxeological economics, as a science, may be value free, the human world is not. The concept of value is conditional upon the antecedent concept of life, and objectivity's value derives from actions tending to promote human life. This is why an ethical theory such as Rand's is needed in addition to Austrian economic theory (Younkins 2011).

Rand argued that the indispensable foundation of capitalism was individual rights. She held that negative rights are moral concepts since they serve to subordinate society to the moral law that governs individuals. The fundamental right of life creates the corollary rights of taking action to sustain that life (liberty) and keeping the results of that action (property). All these rights are negative; they are rights to take an action, not to be provided with something (Rand 1964, pp. 367–77).

Rand's philosophic theory of objectivism echoes the insights of Aristotelian logic and is founded on the axioms of existence, identity, and consciousness. This rational foundation leads to understanding life as the ultimate value, and her moral theory of self-interest follows. From this moral theory, it is clear capitalism is the only system that respects human rights. As she said, "Those who advocate laissez-faire capitalism are the only advocates of man's rights" (1964, p. 377).<sup>13</sup>

Rand did not accept the moral claims of those who supported a social order antithetical to individual rights. She held that individuals are responsible for their own agencies, must be treated as free persons, and cannot be used for ends against their wills.

As Cato Institute president and former CEO of BB&T bank John Allison argues (2013, pp. 215–25), selfishness, as Rand meant it, has a far different meaning than it is often thought to have. Sitting on a couch all day, wrecking relationships with friends and family, and destroying one's body is not selfish; it is self-destructive. Being selfish in the true Randian sense is about promoting the Aristotelian concept of *eudaimonia*, or human flourishing. It is about making decisions that positively affect oneself and one's relationships with others over a lifetime.

The consensus regarding the recent financial crisis is that selfishness was the cause. Bernie Madoff, the one-time operator of a \$50 billion Ponzi scheme, is the epitome of selfishness to most. But Madoff was not selfish, Rand would say: he was self-destructive. He ruined relationships with those closest to him while not producing anything of actual value. He was not using his rationality to produce; he was using it to destroy.

It is important to stress that Rand was not "pro-business." She supported free markets, not state-sponsored cronyism (Rand 1967b). Today, Rand's theory, along with those of others who advocate for free markets, is often conflated with pro-business policies such as bailouts, too-big-to-fail designations, and other forms of special treatment by the government at the expense of others' rights.

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<sup>13</sup> For more on Rand's ethical theory and its inextricable connection to capitalism, see *The Philosophic Thought of Ayn Rand*, and specifically, essays by Eric Mack (1986), Tibor R. Machan (1986), and Douglas J. Den Uyl and Douglas B. Rasmussen (1986).

## VII. The Un-Self-Directed Life Is Not Worth Living

A fascinating and different approach to providing a moral justification for capitalism is that of Douglas B. Rasmussen and Douglas J. Den Uyl, most clearly formulated in their book *Norms of Liberty*. This approach recognizes a unique feature of liberalism: distinguishing ethics from politics (Rasmussen and Den Uyl 2005, p. 37).

For Rasmussen and Den Uyl, rights are not treated as moral principles (as Rand saw them). They are rather metanorms, meaning they do not guide conduct in the pursuit of flourishing, but provide the backdrop that allows for one to pursue flourishing in the first place. They are rules of the game, which are distinguishable from how to play the game well. Without rules, it is difficult to have a game, much less to play it well (Rasmussen and Den Uyl 2005, p. 288).

Rasmussen and Den Uyl reject the idea of “statecraft as soulcraft”<sup>14</sup> and do not believe the function of politics is to make men moral, argues Princeton University professor Robert George (1993). Politics is not ethics writ large. Still, they do not maintain that ethics is relative, a view often incorrectly associated with liberal political orders.

In a neo-Aristotelian spirit, they emphasize that human life leads to a moral system where the good extends far beyond not violating others’ negative rights. While this good is objective, it is not wholly the same for all individuals. Rasmussen and Den Uyl follow philosopher Henry B. Veatch’s reading of Aristotle and emphasize that human good is inclusive (Veatch 1962, pp. xv–xvii). The flourishing life is not simply one of *theoria* (the life of the philosopher), but rather it varies depending on the individual. People possess a wide array of talents, interests, and personalities (termed a “nexus”) that lead to an individualized sense of good.

How can a political order recognize this inherent diversity while still providing a structure for social interaction? To answer this question (termed “liberalism’s problem,” as liberalism in the only political philosophy to concern itself with it) they show the connection of the ethical and political through the principle of self-direction. Protecting self-direction does not prejudice the overall social context toward some forms of human well-being, and self-

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<sup>14</sup> This phrase comes from the title of a book by George F. Will (1984) that argued that government has a defining role in developing its citizens’ senses of morality.

direction is universally applicable to, and present in, all forms of well-being. This is why metanorms are properly concerned with what is universal: self-direction (Rasmussen and Den Uyl 2005, p. 88).

While self-direction is not sufficient to ensure self-perfection (a continuous process of pursuing human flourishing based on one's unique nexus), it is a necessary condition for pursuing a self-perfecting human life. Clearly, self-direction cannot exist where a person's life is directed by another. The initiation of physical force is the clearest violation of self-direction. Similar to Rand, Rasmussen and Den Uyl conclude that a market society, where individuals act as traders, mutually exchanging value for value, is the only just social order (Den Uyl and Rasmussen 2007, pp. 39–40).

These summaries of two consistent defenses of free societies, based in virtue ethics, show the possibility and power of such an approach. Capitalism can be provided with a moral foundation, and doing so increases its appeal and thus its chance of widespread acceptance.

### **VIII. Why Can't We Be Friends?**

Intuitionist philosophers such as Robert Nozick and David Schmidtz offer many contributions to the moral defense of capitalism. They, along with other intuitionist philosophers, understand that people have moral feelings that inform judgments. However, they miss a crucial point: Where do moral intuitions come from? They are based in our human nature, and this is how particular intuitions can be objectively legitimized. While the debate between a Nozickian and a Randian is important, it is not as vital as settling the moral foundation versus monetary utility divide.

Nozick's arguments, further developed by Schmidtz, in support of "side-constraints" on actions, examined historical principles of justice (Nozick 1974, pp. 29–35; Schmidtz 2006, pp. 205–06). That is, if actions were carried out that did not violate side-constraints of justice—negative rights for Nozick—the results are just. It is possible to examine the past, but not to predict the future. The principle of side-constraints allows for moral evaluations of past actions based on clearly defined principles, and therein lies the benefit of a historical perspective of justice as opposed to a utilitarian one.

Though their supporters sometimes do not accept it, Rand's and Rothbard's theories are similar. There are disagreements between the two philosophical traditions, and these again are important debates to have, but the two schools serve themselves better by working against

the treatment of pure economists who only evaluate monetary utility as moral philosophers. “Pure economists” is used since some economists, such as Rothbard, went beyond evaluating monetary measures and also developed robust ethical theories. Rothbard’s theory, for example, was steeped in Aristotelian metaethics and metaphysics (Rothbard 1982; Younkins 2011, pp. 52–54; Share 2012).

These are only a few traditions that defend individual liberty on consistent, moral grounds, but there are many more. While there are clear differences between the previously mentioned positions, they all endeavor to provide a moral basis for capitalism. While advancing free markets, economists and public intellectuals should pay more attention to the philosophical theories that provide the foundation for their work.

Right now, the primary approach taken by defenders of liberty is a monetary one. Why this has happened is up for debate, but what is not debatable is that this tactic has failed. In this moral vacuum, ethical theories that stress subordination of oneself to the good of others have flourished.

### **IX. Moving Beyond Utility: A Call to Action**

This paper is not a comprehensive political or ethical philosophy. It is not a slight at the great work produced by Austrian, Chicago, public choice, and new institutional economists.<sup>15</sup> Rather, this paper serves as a call to action—more specifically, as an opening of discussion.

Those who promote various levels of state control of the economy are winning the argument. The emotional side of arguments is keeping free market proponents from gaining influence even though empirical data are in their favor. Numbers on their own do not reach people’s emotions; ethics do. Feelings of what is fair, just, or right inform emotional responses to situations.

Capitalism can be defended on ethical grounds. It is a system based on a deep respect for individuals’ rights to exercise sovereign control over their lives. Economists, philosophers, and public intellectuals all have distinct roles that are fundamental to the promulgation of this moral defense.

A political and legal order is justified by its protection of negative rights, not by its wealth-creating power. Monetary utility arguments

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<sup>15</sup> For an excellent overview of influential “mainline” (but not necessarily mainstream) economists and economic theories, see Peter J. Boettke’s *Living Economics* (2012).

can serve as icing on the cake, but on their own they are incomplete since they lack a firm moral foundation. Proponents of the principled justification of liberty benefit by ensuring that the appeal to *homo moralis*, not *homo economicus*, is primary. A movement without ethics is futile, and a moral foundation is the ammunition the movement toward liberalism needs for its ideas to triumph.

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