

Deep Political Economy

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Abstract: Pressures leading to the evolution of human intelligence were due more to political factors than to economic factors. As a result, our evolved mind is more adapted to solving political than economic problems. The mind's default when faced with a problem involving other humans is to view it as a political rather than an economic problem. There are important differences between political and economic issues: Politics is about competition; economics is about cooperation. Politics is zero-sum or negative sum; economics is positive sum. Politics is tribal; economics is universal. Politics is driven by active agents; economics is driven by impersonal processes. Finally, inputs are important in politics; outputs are important in economics. One result of political thinking is that people do not understand the morality of the market because they view the market in inappropriate political terms

In recent years, several economists have written about the conflict between perceptions of the morality of the market and the actual functioning of the market (e.g, Brooks, 2010; Caplan 2008; Friedman, 2008; Clark and Lee, 2011). This paper continues that tradition, but I provide an evolutionary explanation for some of the conflict.

In this paper, I argue that our brains are better suited to political than to economic analysis. This is because the evolutionary environment placed more pressure on political than on economic thinking. As a result, when faced with a difficult problem, the mind is more likely to use a political than an economic default. Political metaphors are more natural than economic metaphors in facing new problems. There are differences between political and economic thinking, so this political default is important.

Significant differences between political and economic thinking are: politics is about competition; economics is about cooperation. Politics is zero-sum or negative sum; economics is positive sum. Politics is tribal; economics is universal. Politics is driven by active agents; economics is driven by impersonal processes. Finally, inputs are important in politics; outputs are important in economics. One result of political thinking is that people do not understand the morality of the market because they view the market in inappropriate political terms.

Politics: Positive Feedback

Compared to all other species, human beings are astoundingly smart. But the source of this intelligence is somewhat of a puzzle. Intelligence is expensive. Our big brains use over 20% of our total energy consumption. Moreover, the size of the human brain has created difficulty in giving birth. Indeed, it appears that the limit to brain size and thus to intelligence is the size

of the human birth canal. Because humans are born with underdeveloped brains, there is a significant period of immaturity when we are taught things that other animals know innately or learn much more quickly. This learning period is expensive, both in time and energy of parents and of third parties. Therefore, to offset these high biological costs, there must be a significant benefit in terms of evolutionary fitness to explain our level of intelligence.

What is the source of this intelligence? That is, what is the driving force behind the evolution of our large brain? The only type of process that would generate the level of intelligence of humans would be a process with positive feedback – that is, a process with no internal equilibrium. This would be a process in which the benefits of intelligence lead to more intelligence, up to the physical limit on brain size. That is, a positive feedback process will have no internal natural equilibrium level; the limit must be exogenous, such as the limit on the human birth canal, mentioned above. The most likely such process would be one involving political competition between humans. This would be some combination of competition between groups of humans and competition within the group.

Humans (and chimpanzees) are well set up for such competition. Both species are patrilocal, meaning that males remain in the birth groups and females migrate. This means that there are groups of genetically related males associated with each other. This in turn implies that through well-known biological mechanisms (called kin selection) these groups of males are in a good position to form bonds with each other and engage in aggressive behavior with respect to neighbors. Indeed, chimps do engage in exactly such behavior, and commit something very much like genocide against smaller neighboring bands. There are also internal political processes within chimpanzee bands (DeWaal, 1982).

It is likely that our ancestors engaged in similar behavior (with the victors becoming our ancestors.) While some think our ancestors were peaceful, the best evidence is that they were actually quite violent (Keeley, 1996; Pinker, 2011). An important aspect of such behavior is the formation of coalitions. Organizing and maintaining coalitions is an activity requiring intelligence, and forming larger and more cohesive coalitions would require increasing amounts of intelligence.

Political competition would have had exactly the positive feedback loop needed for increasing intelligence. As a lineage becomes smarter and better able to organize power seeking coalitions, other lineages would either also become smarter or lose out. That this process has no natural equilibrium level can be seen from the fact that contemporary political coalitions (called nation-states) can have upwards of one billion people (India, China) whereas ancestral coalitions were at most a few hundred in size. Thus, there is continual pressure for increasing intelligence and no internal limit; any limit would be external, as from the size of the human birth canal. (Contrast this with, say strength, where increased strength leads to larger body mass. This increases weight and also nutrition requirements, and so is a self-limiting process.)

Evolution is generally thought to proceed when some small group becomes isolated from the main population of some species and experiences a favorable mutation. This is because the favorable mutation would be eliminated before it could spread through an entire population, but could establish a foothold in a smaller population. Then the smaller population will expand and eliminate the larger population so that the favorable mutation becomes universal within the (new) species. Over the time of evolution of modern humans such episodes would have occurred several times until modern humans evolved. This is presumably what happened to our ancestral species (australopithecines, homo erectus, and homo ergaster). But there is no sense in which the evolution of our intelligence was “inevitable” and of course evolution is blind and has no goals. Intelligence was a lucky accident. Indeed, the distinguished biologist Ernst Mayr (1988) believed that the evolution of human level intelligence is probably a unique event in the Universe because there were during evolutionary time innumerable possibilities for intelligence to evolve and it happened only once.

Economics?

It might appear that our intelligence is related to ability to make a living. (This explanation would especially appeal to an economist.) However, this is unlikely to be true. We are much more intelligent than would have been useful or necessary for our ancestral occupations.

Consider: Our ancestors during evolutionary times were hunters and gatherers. (Agriculture did not appear until long after fully modern humans had evolved.) Neither of these occupations requires anything like the level of human intelligence. Carnivores and predators must be more intelligent than their prey, but not so much more as we are. There are numerous successful predators who would have hunted roughly the same species as our ancestors and who are not nearly as intelligent as us. Consider the big cats and the canine hunters, such as wolves. These species are more intelligent than their prey (and our ancestors’ prey) in Africa, but they are not even close to our league. Our close relatives chimpanzees (and bonobos) and the more distant gorillas are successful gatherers (sometimes with a little hunting thrown in) and they again are not nearly as smart as we are. There are some complex optimization problems related to optimal foraging, but birds and simple animals seem to be able to approximately solve these problems without a great deal of intelligence. (Charnov, 1976).

More generally, we can say that pressure from “nature” is not sufficient to generate our level of intelligence. This is because beyond some simple level (associated with the intelligence of predators and prey) nature is not a strategic player (that is, nature does not adapt to our behavior and attempt to thwart or outwit us), and it is only pressure from other strategic players that can generate human like levels of intelligence. In political competition, other humans were strategic players. The result is that political behavior and political competition was much more important in driving evolution than was economic behavior.

Our ancestors could have made a comfortable living with a much lower level of intelligence. Indeed, they did. Ancestral species such as australopithecines, homo erectus, and homo ergaster lasted for hundreds of thousands or even millions of years (longer than homo sapiens has been around) with significantly lower levels of intelligence. During this time, some of these species expanded from Africa and colonized much of the habitable Old World.

Modules

There is another aspect of the human mind that is relevant for this discussion. Evolutionary psychologists believe that the human mind is not a general purpose computer. Rather, it is made of specialized modules, where the modules are “designed” (by natural selection) to solve problems that were relevant in the evolutionary environment. (Kurzban, 2010; Cosmides and Tooby, 1992). This is essentially for economic reasons: it would have been too expensive for evolution to build a general purpose computer, and such a computer would not have been able to solve problems related to survival in real time. Rather, the mind is a set of special purpose computers, where each is aimed at quickly solving a problem relevant to our evolutionary background. The first such module that psychologists understood was language (Pinker, 2003) but it is now thought that there are several such modules, many related to social interactions. In addition to politics, there are family modules, related to kin selection, and sexual modules, related to mating behavior. Kurzban (2010) is an accessible discussion of the importance of modules in the human brain.

At least one of these modules related to politics and political power. This is much more developed and more sophisticated than the module related to economic behavior. This is because political behavior in our ancestors was more important for our evolution than economic behavior, and because politics in our ancestors was more complex than economics. In other words, there was selective pressure to solve political problems, and those who solved them were more likely to be our ancestors.

To see the relative importance of political versus economic behavior, consider fiction. We “enjoy” fiction because fictional stories enable us to learn about relevant events and strategies and our ancestors who undertook such learning through listening to stories were more successful (more likely to become our ancestors) than those who did not. (Dutton, 2010.) Specifically, we enjoy fictional stories that are related to evolutionarily important issues. Huge amounts of fiction deals with political actions and behaviors. Books and movies are full of wars. But except for a few eccentrics like Ayn Rand little fiction deals with economic actors as heroes. Indeed, successful businessmen are more likely to be portrayed as villains than as heroes (Shugan, 2006; Ribstein, 2006; Stein, 1979.) When economic behavior is featured it is perverse or predatory economic behavior, as in crime stories and detective shows on TV. Again, these stories appeal to our innate mental modules, and these modules are not well suited to complex economic thinking.

Even when economic and business news is reported, it is generally reported in terms of the behavior of individuals. News articles will often begin with the experience of some individual. News stories will quote some individual or individuals for analysis. Congressional hearings, the basis for policy, often start with witnesses who have direct experience of the relevant issues, rather than with expert analysts. Even popular articles about science will begin with discussions of the particular scientists who discovered the relevant theories or facts, rather than with the science itself.

Innate versus learned thinking

The implication of these facts is that our minds are much better at solving political problems than at solving economic problems. Put differently, this means that when faced with a difficult problem involving human interactions we are much more likely to address it as a political than as an economic problem. This obviously does not mean that we cannot solve economic problems; our minds are sufficiently intelligent and flexible to be able to solve many problems that were not part of our evolutionary background. But we must develop specialized tools for solving these problems; they are not part of our evolved mental architecture. Moreover, in those areas where we have not learned the specialized tools, we still fall back on evolved mechanisms. Viewing a problem involving human interactions (in a non-sexual and non-family context) as a political problem is the mind's default, and many problems will only be viewed in other terms if there is a specific effort to do so.

Some examples of innate versus learned behaviors: We naturally learn to walk and run, but must be taught to drive. We naturally learn to talk but must be taught to read and write. We would probably learn to count to ten with little instruction, but higher numbers and most of arithmetic and higher mathematics must be taught. We learn from our own experience and experience of our direct associates, but must be taught statistical inference to learn from events outside of our direct knowledge. (Even then, we have difficulty understanding large numbers; we tend to overreact to statistically improbable events that we learn about from reading the news. This is because we evolved to react to events that we perceived and we are not good at separating direct perception from indirect perception. We are also not good at understanding denominators of 300,000,000.) Similarly, we can process data in terms of relative frequencies, but must be taught to use numerical probability measures. We learn to distinguish animal species, but we do not understand the mutability of species through evolution. (This is because during the life of any human, animal species do not change.) Politically, we naturally form hierarchies (more among males than among females) and we tend to exclude those who are in some way different. Even crude majority voting mechanisms seem innate, and we also have innate notions of fairness.

Since complex economics was not part of our evolved architecture, we do not naturally solve economic problems. (Pinker, 2003, lists statistical inference, economics, and evolutionary

biology as three important areas that are not innate and must be taught.) We are good at business (Smith's "propensity to truck, barter and exchange") and at using markets to maximize our own position, but not at economics. We can learn to solve economic problems, but we must learn. Economics is more like driving or reading than like walking or speaking. Notions of social gains from trade, for example, are not natural, and our natural way of thinking is basically zero sum (Rubin, 2002). *Wealth of Nations* was a hugely important book exactly because it was full of notions that are completely counter to our evolved ways of thinking. In addition to gains from trade, these counterintuitive notions include the benefits of specialization and division of labor (the pin factory), the power of unplanned mechanisms and the benefits of self-interest (the invisible hand). None of these notions are intuitive or innate.

Self-interest is particularly important. In a zero sum or political world, selfish and self-interested behavior benefits one individual at the expense of others. Our innate political mind views this behavior as harmful to the group and therefore to be punished. This is why the "invisible hand" was so powerful and so counter-intuitive and so important a metaphor.

The implication is that in a deep sense we are likely to think of economic problems as if they were political problems. Many voters are not trained in economics, and these citizens are likely to put economic issues into a political box. Because voters in a democracy have impacts on policies, this has important implications for economic policy. Moreover, because political thinking is so deep in our mental architecture, even professional economists sometimes confuse economic concepts with political ones. Political metaphors are much more natural and much more salient than economic metaphors. The notion of "trade wars" is natural and pervasive (and of course totally misguided), but the notion of a "market for war" is foreign and unknown.

When a political decision must be made about an economic issue (e.g., should there be tariffs?) the political decision maker (official or voter) is already thinking in a political mode and so is even more likely to view the issue in political terms. That is, when thinking about a tariff (or similar issue) a voter, since he is in the process of making a political decision, is more likely to think about the political aspects of the decision than about the economic aspects. On the other hand, when buying a good, economic thinking is more likely to prevail than is political thinking. Thus, citizens may well favor tariffs politically and at the same time purchase imported goods. While this may appear hypocritical, it may merely be the result of different modules operating in different domains. Kurzban (2010) has a general discussion of hypocritical thinking involving conflicts between modules.

Characteristics of Political versus Economic Thinking

Here are some of the relevant characteristics of political thinking as contrasted with economic thinking:

1. Politics is about competition. Economics is about cooperation to generate surpluses.

2. Political thinking tends to be zero sum – division of a fixed pie. Economics allows for positive sum interactions.
 3. Politics is “us versus them” conflict. We are a tribal species, with tribal competition. Economics is universal; trade with anyone is beneficial.
 4. Perhaps because of its “us versus them” nature, politics is dichotomous: win or lose, good or bad. Economics is continuous: more or less, how much.
 5. Political processes are controlled by specific active agents – the chief, the king, the general. These agents may be heroes or villains, but they are purposeful agents. Economics deals with processes, as the market process or the “invisible hand.”
 6. Politics focuses on inputs; economics focuses on outputs.
- I now discuss each of these issues.

Competition

The most important error in economic thinking is associated with one of the most fundamental concepts of economics: competition. We tell our students that in the purely competitive model, there is no competition, but this is a throwaway line and we do not fully understand or analyze the implications. Fundamentally, the model of pure competition is a model of cooperation, not competition. In this model, sellers ignore each other; they are in so sense competing. Buyers and sellers are cooperating to maximize the sum of consumer and producer surplus. That is, the notion of competition focuses on interactions of agents at the same stage of production. But the most important concept should be interaction of agents at different levels – buyers and sellers, firms and workers. These latter interactions are cooperative, not competitive.

We see this in the study of marketing. Marketing is about the cooperation between buyers and sellers to maximize the joint surplus. For example, a leading marketing text defines marketing as “Creating value for customers in order to capture value from customers in return” (Kotler and Armstrong, 2008, p. xxi). This is a good working definition of a cooperative equilibrium.

Even in non-perfectly competitively environments the degree of “competition” is overestimated. Firms in this environment do compete with each other, but they are competing for the right to cooperate with consumers and suppliers, including workers. Strategic interaction is aimed at deciding how each firm can do better in attracting customers or suppliers – cooperating with consumers. (“To gain competitive advantage, companies must use this understanding [of customers] to design market offers that deliver more value than the offers of competitors seeking to win the same customers.” Kotler and Armstrong, 2008, p. 514.) A monopolist is a firm with an exclusive ability or right to cooperate with consumers in some market.

We focus on competition rather than cooperation because of our political bias towards looking at markets through the lens of politics. Competition is between firms, who are actively striving to accomplish some goal. We naturally look at these firms as actors. But the cooperative market is a process, with no particular actors. Even the “invisible hand” metaphor is in a deep sense a political metaphor – it implies that there is some actor or agent directing the process. Of course, Smith knew that this was a metaphor but he also understood that the human mind could best understand the process if it were presented as the result of the actions of a conscious agent – one with a “hand,” albeit invisible.

If economists had defined the fundamental economic model in terms of cooperation rather than competition, then our entire understanding of economics would have been changed. For example, recent experimental results that find more cooperation than economics predicts would not be surprises since in fact economics does predict much cooperation. Critics of capitalism who decry “the dog eat dog” world of competitive economics would not commit this fallacy if we thought in terms of cooperation rather than competition. The most successful firm would be defined as the “most successful cooperator” rather than the “most successful competitor.” When a firm devised a new product or strategy, we would refer “cooperative advantage” rather than “competitive advantage.”

We tend to view competition as bad and cooperation as good. Because our terminology leads us to think of competition rather than cooperation in markets, even believers in the market often feel that they must justify markets. That is, competition is viewed as a “cost” and defenders of markets believe that there must be some offsetting benefit to justify this cost. If we used the language of cooperation, then many who are critical of capitalism might have different attitudes.

Zero Sum Thinking

Political thinking is zero sum or even negative sum (as when there is resource using conflict over a resource.) This may be because the economy during evolutionary times was not a dynamic or growing economy, and so there was no need for our minds to evolve to understand economic growth. We naturally think of a fixed amount of goods to divide. In such a world if I have more, then you have less. If we fight over the resource, then we have less in total because of the loss from the act of fighting. This sort of thinking permeates the decision making of those untrained in economics (Rubin, 2002). For example, it explains why untrained people worry about losing jobs through international trade. (The number of jobs is viewed as fixed.)

Economists understand economic growth. But we are also subject to zero sum thinking. Recently the profession has begun to worry about increasing income inequality. (Piketty and Saez, 2003.) But inequality is only an issue in a zero sum world. If we believe our theories of wages and productivity, then one person earns more money than another else because the

higher earner is more productive. In a zero sum world, inequality is an issue because if one person has more than another has less. But in a world of economics, inequality is not or should not be an issue. If one person has more than another it is because the richer person is more productive. If the richer person earns less, this will not provide any benefit to the poorer person; it will simply reduce total wealth.

Us versus Them

Evolutionary human competition is within an “us versus them” structure. Our minds naturally seek this structure. Thus, when the economy is defined in terms of competition, we look for competitors and rivals. These competitors may be other firms, even though in many forms of competition there is no rival. They may also be thought of in terms of firms and customers. For example, the entire “consumerist” movement associated with Ralph Nader and his associates thinks of the economy as being one in which firms and customers are fundamentally enemies. In fact, of course, firms and customers are in a cooperative arrangement, with only minor details (the division of the surpluses through price) being the subject of disagreement. This form of thinking also leads us to seek villains, as discussed below.

This is especially important when considering international trade. Here, the combination of zero sum thinking and us versus them thinking leads to a particularly toxic mix. We tend to think that Americans are losing jobs (because of zero sum thinking: the number of jobs is fixed) and we are losing them to foreigners – to members of another tribe. This leads to anti-trade policies, such as tariffs and quotas. Of course, American import-competing firms and workers through unions are perfectly happy to exploit this sort of thinking, but the thinking exists independently of the exploitation. This sort of thinking explains in part why protectionists are more successful than many other interest groups at convincing the public.

Agents versus Processes

In politics, outcomes are driven by the actions of specific agents – the king, the general. Moreover, these agents are identifiable – we know who they are. Economic activities are much more process driven. There are active agents in economics – entrepreneurs – but economic theory does not actually handle these agents very well. Kahneman (2011) makes the point that in general our minds think of agents rather than processes.

When things go well, we look for someone to praise, rather than understanding that it is the result of a well-functioning market process. Conversely, when a process goes awry, we do not view it as a systemic failure. Rather we seek to blame someone. This is the converse of our lack of understanding of the invisible hand. Just as we do not understand intuitively that unplanned and uncontrolled processes can generate beneficial equilibria, so we do not understand that such processes can go awry and sometimes generate harmful equilibria with no one being to blame. Economists are also subject to this particular fallacy. Because we

believe in invisible hand processes leading to desirable outcomes, we are perhaps unwilling to accept that these processes can on occasion fail with no one to blame. (An exception is of course Thomas Schelling, e.g., 1978.)

Ex post – after some harmful outcome has occurred – we can always find some way in which it could have been prevented by some active agent, but that does not mean that ex ante it was caused by some failure of that agent to take action. Ex ante there may be many possible failures, and it may be impossible to determine which will occur. It may also be that if we take an action to prevent one failure, it will cause another, so that in some circumstances some systemic failure is inevitable. For example, if we are in a “bubble” then stopping the bubble will lead to an immediate crash. Allowing it to continue will ultimately lead to a perhaps even worse crash. But if the authorities stop the bubble now they will be blamed for the immediate crash. If they don’t, they will eventually be blamed for the ultimate crash. We now blame Alan Greenspan for the 2008 market collapse, but if he had tightened up earlier the market would have crashed sooner and he would have been blamed for that instead.

Belief in the importance of conscious agents rather than impersonal processes often leads people to blame others for unfortunate events. For example, when the price of some commodity increases, many will hold “greedy” companies to blame, although those trained in economics may understand that it is a result of the normal functioning of the market. When there is an increase in oil prices it is common for the political authorities, in response to popular unhappiness, to assign the Federal Trade Commission the task of “investigating” the source of this increase. A year or two later the FTC reports that the price increase was the result of market forces. But if people understood the impersonality of the market there would be no need for the investigation.

Belief in the power of conscious agents also leads to a belief in conspiracy theories. Nozick (1977) and Sunstein and Vermeule (2008) discuss the difference between conspiracy theories, which argue that processes which seem random are actually due to conscious actions, and “hidden hand” or “invisible hand theories” which argue the opposite. Economics is of course the mother of invisible hand theories. Pipes (1999) has shown the harm caused by conspiracy theories.

On the other side, if we see the outcome of a market process, we can then say that we did not need the market to generate that outcome, and that a government agency could have achieved the same outcome. But that does not mean that ex ante the agency would have known what to do. The outcome is the result of a market process and the information needed to accomplish the goal has been generated by the market itself. (Hayek, 1945). Many things that seem obvious ex post are by no means so obvious ex ante. Moreover, this fallacy leads to a belief in “industrial policy” and other efforts at government planning. Since ex post we believe that government could have achieved the same outcome, we then believe that ex ante government can plan for good outcomes.

Inputs versus Outputs

In politics, inputs matter. Is the chief trying to improve the welfare of the people, or is he trying to maximize the welfare of himself and his close associates? The answer to this question is important because the outcome of the political process is direct. An evil king will produce evil results. This is perhaps a corollary of the zero-sum nature of politics and of evolutionary societies: if the king takes more, there is less for the rest of us. This applies to goods and services, and also to sexual and therefore reproductive success (Betzig, 1986.)

Adam Smith's great insight is that in economics outputs matter; inputs do not. In the market, selfish and greedy people can produce socially desirable results. Motives do not matter. This insight is one of the most difficult for non-economists to grasp. I write a lot about the pharmaceutical industry. The most common criticism of this industry is that "They are out for profits, not to help the sick." Anyone conversant with economics would say, "Of course. So what?" But physicians and others writing about the industry reject this argument. They focus on inputs (motives) and not on outputs.

Even some defenders of capitalism sometimes commit this error. Markets reward people for their output –for what they produce. Defenders often argue that wealthy people are deserving because they are talented, or because they work hard, or because they save and invest. All of these may be true, but they are irrelevant. Markets reward people if they produce things that other people value and are willing to pay for. Rewards may be due to hard work but equally they may be due to luck or even to seemingly immoral behavior, sometimes called "sharp practices." It does not matter. It is only what is produced that is relevant.

It is also argued that it is good for the wealthy to "give back" – that is, to donate some of their wealth to charitable causes. This may be socially beneficial if the charitable causes are themselves socially beneficial (although for many wealthy persons who feel guilty about their wealth the charities themselves may be harmful; Schumpeter, 1942.) But in any event, the good done by the person in earning his wealth is much greater than any benefit from the charitable contributions. By making automobiles cheap and readily available to millions of people, Henry Ford did vastly more good than has the Ford Foundation. By making computers ubiquitous, Bill Gates did more good for humanity than the Gates Foundation is likely to do.

The Morality of the Market

All of these issues are relevant for understanding beliefs about the morality of the market. All lead to incorrect assertions about the immorality of the market. (Friedman, 2008, p. 60, discusses conflicts between morals and markets, but his explanation is that "the market system invaded the moral sphere." That is not inconsistent with my argument, but I put more structure on the source of morals that does Friedman.)

If we focus on competition rather than cooperation, then we think of winners and losers. We feel sorry for the losers and may view the winners as cheaters. By our emphasis on competition, economists must take some blame for this error. But if we think about cooperation, then the “losers” are those who are less successful at cooperating. Walmart succeeds not because it has beat up its rivals and driven them out of business. It succeeds because it has done a better job of cooperating with consumers, by offering them stuff they want at the lowest possible prices. Of course, economists know this, but since non-economists begin with the competition model economists must be defensive and try to dissuade citizens of their prior beliefs. If the default way of thinking was cooperation, then the critics of markets would be on the defensive.

The zero sum nature of political thinking also leads to incorrect moral judgments about the market. I have explored this in detail in “Folk Economics” (Rubin, 2003). For example, belief in zero sum thinking leads to envy. As mentioned above, it also leads to incorrect beliefs about international trade. But there are some additional implications. For example, we judge income inequality as a bad thing. But this is only true if total income is zero sum, so that the rich get richer by taking from the poor, who get poorer. But economics teaches that people are approximately paid what they produce (their marginal product.) If this is so, then the rich are rich because they produce a lot. They have not taken anything from anybody. If one person has more than another, it is not because the person with more has taken from the person with less. The folk saying, “The rich get richer and the poor get poorer” is an incorrect statement due to zero sum thinking.

Finally, focusing on inputs leads people to judge behavior by motives, not outcomes. (Also discussed in Clark and Lee, 2011). This has two harmful effects. First, behavior which is beneficial but undertaken for the “wrong” (i.e., selfish) motives is condemned, even when beneficial (as discussed above in connection with the pharmaceutical business.) Second, people can be induced to favor harmful policies if these policies are expressed in beneficial terms. Minimum wages are an example; these harm the poor but because the motives of advocates are viewed as altruistic and beneficial, they are favored by many. At a larger level, this is why Marxism is viewed more favorably than Fascism even though communism was responsible for more human deaths than was fascism (Kramer et al., 1999). Marxists expressed their goals in morally more acceptable terms than did fascists, even though both killed millions of people.

Implications

Because our intuitions seem to indicate that markets are immoral, many feel a need to defend them. One recent example is Arthur Brooks, President of the American Enterprise Institute, a major pro-market think tank. (I am an Adjunct Scholar at AEI.) In his recent book, *The Battle*, he talks about the moral case for free enterprise and capitalism. His most important

point essentially deals with the distinction between inputs and outputs. “The purpose of free enterprise is human flourishing, not materialism.” This is based on a discussion of the role of capitalism in creating personal self-reliance and autonomy.

This may be a benefit of capitalism. However, it is not the most important benefit. It is important only because people are concerned with the inputs to the capitalist system, not with the outputs. In fact, capitalism is the most moral system known. That is because capitalism is focused on one thing only: giving people what they want. The only way to be successful in a capitalist system is to give people the deals that they want. (By deal I mean that combination of price and other attributes of a good or service that people are willing to pay for.) The more deals that you can induce people to accept, the more money you can make. There is no other way to make money legitimately.

This system is moral because it maximizes human welfare. It provides the most goods and services feasible, and provides them in the least cost way. The lives of ordinary people under capitalism are as happy as it is possible for them to be. No other system can make this claim. This measure of morality is a pure output based measure: capitalism is moral because of what it produces. People do not fully grasp the moral benefits of capitalism because we tend to focus in inputs and on motives rather than outputs.

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