

FREE EXCHANGE AND ETHICAL DECISIONS

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AUTARCHIC EXCHANGE VS. FREE EXCHANGE

The economic theory of interpersonal free exchange is beautifully simple. Given two individuals A and B, all we need for an exchange between them to take place is a double inequality. For example, suppose that A has an orange, and B has an apple. If A prefers B's apple more than his own orange, while B prefers A's orange more than his own apple, they will exchange.

This is simple, but it could also be misleading. Contemplating the theory, we might come to the conclusion that the double inequality is a *sufficient* condition for the interpersonal free exchange: whenever we have the double inequality, we also have the exchange. Or, to translate this in terms of demonstrated preference, whenever an exchange took place between two individuals, this happened because—and only because—a double inequality occurred.¹

However, this conclusion doesn't hold. Suppose that we have the double inequality, but A doesn't consider B a human being. From A's point of view, B is nothing but an unusual apple tree. Consequently, he will try to appropriate B's apple in the same manner we usually pick apples from apple trees. However, unlike normal apple trees, B will fight for his apple.

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¹On the theory of free exchange, see, e.g., Murray N. Rothbard, *Man, Economy, and State* (Auburn, Ala.: Ludwig von Mises Institute, 1993).

A has two possibilities: pick an apple from an apple tree, or pick an apple from B. In both situations, A will engage in what economists call autarchic exchange. Apple picking is not costless, since one must give up something, such as physical energy and time, in order to pick an apple. If, on A's personal value scale, the goods he must give up in order to pick the apple are less valuable than the apple he desires, he will pick the apple.

Therefore, A faces a calculation problem. Which is the most cost-effective way to have an apple: grab it from B, or pick it from a normal apple tree? The answer to this question depends upon many factors: how far is A from an unowned apple tree, how far is B from A, the intrinsic qualities of the different apples, A's physical strength, B's physical strength, A's ability to cheat B (in order to avoid a physical confrontation with B), B's ability to recognize A's cheating maneuvers, and so on.

In autarchic exchange, we deal with only one value scale: the one of the agent. Other value scales either don't exist or are irrelevant. In interpersonal free exchange, on the contrary, because we have two agents, we not only have two different value scales, we also have a mutual recognition of the other person. In a free interpersonal exchange, both parties recognize themselves and the other party as agents.

In autarchic exchange, the problem of cost calculation looks like this: what must I give up in order to obtain something? In interpersonal exchange, the same problem looks like this: what must I give up in order to obtain something *from someone else*?

Therefore, the double inequality *is* not and *cannot* be a sufficient condition for the interpersonal free exchange to take place. For such an exchange to take place, we also have to meet another condition: the mutual recognition of both parties as fellow humans (or, in more general terms, as agents). In other words, the double inequality is but a *necessary* condition of interpersonal free exchange.

Recognizing the other as a fellow human, recognizing him or her as an agent, is an ethical decision—in fact, the most fundamental ethical decision. We engage in non-aggressive activities if and only if we decide that we deal with another agent. Whenever we don't make such a decision, we engage only in autarchic exchange.

One consequence of this argument is that autarchic exchange is the simplest explanation of aggression. If A treats B as an unusual apple tree, he will engage in predatory activities against B. This happens

Cuceraí – Free Exchange and Ethical Decisions

because, in autarchic exchange, the other is but a resource, while in a free interpersonal exchange, the other is *the owner* of the desired resource. Theft, rape, murder, enslavement, and so on prove that the victims' value scales were ignored by the agents who engaged in aggressive actions against them.

Since a free interpersonal exchange presupposes not only a double inequality but also a mutual recognition of both parties as agents, the free market is an ethical environment. The expansion of the market means that more and more individuals are recognized as fellow humans, as agents with personal value scales. In other words, a free market is conducive to ethical behavior.

Conversely, criminal anarchy is possible only within non-market environments. The more restricted the market is, the more generalized autarchic exchanges become. Thomas Hobbes described a world where everyone is at war with everyone, and where life is short, brutish, and ugly.² It is important for us to understand that such a situation is possible only within a non-market environment. In other words, “the law of the jungle” doesn't describe how individuals behave on a market, but how they behave *when there is no market*.

Within a non-market environment, an individual engages only in autarchic exchanges, like Robinson Crusoe on his desert island. From his point of view, the world comprises only unowned resources, and all the other individuals are treated as potentially dangerous resources—as tigers somehow carrying apples on their backs, for instance. When an individual doesn't recognize the humanness of the other, the only possible way of conduct left is aggression: the initiation or threat of physical force as a means to achieve goals.

This simply blows into pieces the myth of the good dictator or, in the case of welfare states, the myth of the good administrator (or the good politician or technocrat). Both the dictator and the administrator create and support a non-market environment. In other words, they live by making non-market decisions. In so doing, they engage themselves in autarchic exchanges: they fail to recognize the humanness of other people.

A non-market environment requires individuals who are able to create and support non-market patterns of redistribution. In order to

²Thomas Hobbes, *Leviathan*, ed. J.C.A. Gaskin (Oxford: Oxford University Press, 1996).

become such an individual, one has to have certain moral traits, the first of which is the ability to treat other human beings as resources, not as resource owners. The more such traits one has, the more chances there are to successfully rule the non-market environment. We live in a world full of kings, presidents, and prime ministers. Irrespective of their political creeds and the number of their supporters, in order to become a king, president, or prime minister, one has to have a large number of those moral traits that we usually despise, but that are necessary prerequisites of success within a non-market environment. In other words, “honest statesman,” “honest politician,” “honest technocrat,” and the like are but contradictions in terms.³

A free market can survive only when embedded within a tradition of individual human dignity. More precisely, a free market generates such a tradition—because free exchanges are possible when we have a double inequality, *and, at the same time, when both parties recognize the humanness of the other*—and is supported only by such a tradition.

ETHICS AND EXCHANGE

Recognizing the other as a fellow human—as an agent with his or her own personal preference scale—is the most fundamental ethical decision, but such a decision is taken for granted, and therefore left unexplained, by all the ethical theories we know. To better understand this problem, let’s focus on three major ethical approaches: Lockean, Kantian, and utilitarian. At first glance, one could say that being Lockean or Kantian is inconsistent with being a tyrant. In the case of utilitarianism, things are more complicated, but let’s assume we can develop a version of utilitarianism that is inconsistent with tyranny. Yet, such an incompatibility is true if and only if all humans are treated as humans by the Lockean or Kantian individual.

An ethical theory tries to prove that all humans should be treated in a certain manner. If you are Lockean, for instance, you should respect your fellow humans’ natural rights, but a question remains unanswered: *who counts as human?* When we say “all humans,” we do not specify what a human is. Aristotle, for example, thought that slaves were household animals—different from horses, cows, or hens, but

³This is an extension of Hayek’s argument on “why the worst get on top.” See F.A. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944).

Cuceraï – Free Exchange and Ethical Decisions

still animals. In recorded human history, various groups of human beings thought that other groups were sub-human. Therefore, they felt entitled to use them as unowned resources, or even to slaughter them.⁴ From this point of view, one can consistently be both a slave owner and, let's say, a Lockean.

To understand why a human decides to recognize another as a fellow human, we must ignore the ethical theories. As we saw, they cannot help us in this research, since they take such a decision for granted, so we must start from somewhere else. For instance, I coordinate a private seminar on the political philosophy of freedom. Since this is a private seminar, nobody is compelled to participate. On the other hand, nobody expects academic reward or recognition from participating in the seminar sessions. So why do people come to my seminar? Presumably because they are interested in what I have to say. In other words, my arguments are a useful resource for them. But if they want access to such a resource, they must treat me as a free man—as a resource owner, not only as a resource, because this is the only way they are sure they get the resource they want (i.e., *my* arguments) and not some phony arguments I might develop in order to stay alive.

Let me give you another example. Nicolae Ceausescu, the former communist dictator of Romania, was allegedly interested in logical issues, so he had long conversations with Athanase Joja, a fine logician and a member of the Romanian Academy. If Ceausescu wanted only to learn some principles of logic—let's say, deductive logic—all he had to do was to take a textbook on deductive logic, or to force some logician to teach him deductive logic. As a dictator, he had access to such means. However, if Ceausescu was genuinely interested in logical issues and the creative dimension of logic, he had no other way but to treat Joja as a free man. His dictatorial powers were useless in this respect.

In other words, we can have access to some resources that are valuable to us if and only if we treat other people as fellow humans, that is, as agents endowed with their own personal value scales. This happens because such resources can be produced only by free individuals, and they cease to exist whenever we treat others as resources, not as resource owners. Among such resources we usually include love, friendship, and affection.

⁴Examples are too numerous and well known to mention.

REASON, LANGUAGE, AND THE MARKET⁵

There are at least two other resources of this kind that are of tremendous importance for human beings: reason and language. Through reason, I understand the computational ability necessary to coordinate one's performance within the outside world. This means both the ability to receive and process valuable information from the outside world, and the ability to find or create better environmental niches. Language is the ability to turn some of these processes into words and sentences.⁶

Taking other people into account requires more calculation. Not only we will have to deal with another human's existence, we will also have to deal with his or her own preference scale. This offers us new relevant information, but it also requires a better computational system: a bigger brain than apes possess, for instance, and a larger neural network.

This may look like circular reasoning: one would seemingly need reason and language in order to appreciate these human features as valuable resources. But the truth is that *reason and language are emergent tools*, not goals purposively attained. In other words, reason and language are evolutionary abilities we learned to use, not goods we obtained on purpose. To simplify, the process looks like this:

- individuals did certain things to achieve certain goals;
- in so doing, they acquired certain traits as a side effect of their behavior;
- these traits were selected and reproduced, because they offered the individuals better ways to perform in the outside world.

This doesn't mean they were purposively selected. Rather, they offered the individuals' genes better reproductive chances, so individuals with such traits eventually outnumbered the individuals without them. Reason and language are such traits.

There are resources we cannot reach, such as affection, unless we treat other humans as free individuals. Suppose one man accidentally discovered that in order to obtain affection from another human, he

⁵This section of my paper generalizes the argument on the impossibility of economic calculation in socialism. See Ludwig von Mises, *Socialism* (Indianapolis, Ind.: Liberty Classics, 1982).

⁶On the computational theory of the mind, see, for instance, Steven Pinker, *How the Mind Works* (New York: W.W. Norton, 1997).

Cuceraí – Free Exchange and Ethical Decisions

must treat this other human as a free individual. In so doing, he had to deal not only with the other human's existence as a resource (or as a danger) but also with his or her scale of preferences. He thus discovered a more complex level of computation, and he began to operate at this level. In other words, he acquired reason in the human sense of the term. Since his computational abilities expanded, his chances to reproduce his genes expanded also. Therefore, people who acquired a certain degree of human reason eventually outnumbered other people.

Taking into account a different scale of preferences requires a more complex system of communication, of exchanging information. Thus, human language occurs. With reason and language, it becomes possible for two human individuals to separate their goals, and to trade means in order for each of them to achieve his or her own goal. To put it differently, with reason and language, free exchange becomes possible and a market environment becomes available as a new environmental niche. This further expands the separation of goals, allowing more and more goals to be followed, which, in turn, expands human reason and language.

This offers grounds for a refutation of Thomas Hobbes. More precisely, we are now able to reject his claim that individuals living within a non-market environment (i.e., living within a criminal anarchic environment like the one he imagined) are still endowed with human reason and language. His claim is based upon the false belief that reason and language are somehow miraculously attached to human individuals under any circumstances. However, we saw that criminal anarchy is the best description of a non-market environment. We also saw that reason and language are conducive to free exchange. Therefore, if we have no market, we lose reason and language. The more hampered a market is, the less reason individuals on that market have, and the less complex their linguistic abilities become. In other words, an individual placed within a Hobbesian environment would soon lack the reason and language necessary to understand and to describe the fact that he or she is placed within a Hobbesian environment. This is true, of course, if and only if the Hobbesian environment is universal in time and space. In other words, if nothing but hell existed, the mighty Prince of Darkness would soon turn into a zombie, into a pathetic creature unable to understand and to operate with concepts like control, manipulation, or Kingdom of Evil.

Totalitarian societies are good examples of criminal anarchies where individuals are treated as resources, and where the fittest operator with

such resources becomes the leader. Yet, we know that the first things that disappear in such societies are reason and language. Individual computational abilities are severely diminished by forcing the computational system to operate with false information, and by not allowing it to have access to other scales of preferences. Sometimes the computational system is completely dismantled—through means of Hegelian or Marxist “dialectics,” for instance. Likewise, language quickly decays into Newspeak.⁷

The existing totalitarian societies were not completely Hobbesian, however, because they were not universal in time and space. They had free neighbors and free ancestors. The elite of a totalitarian regime had access to the neighboring market environment. The oppressed, on the other hand, had direct or indirect access to the memory of a free world. This allowed for the survival to some extent of reason and language, giving the false impression that the totalitarian system is able to operate solely on its own basis. In fact, the system was heavily supported by the existence of a wide market environment, able to generate and refine reason and language.

Therefore, the very fact that Hobbes wrote a book like *Leviathan* proves that neither Hobbes nor many generations of English-speaking (and writing) humans before him lived within a Hobbesian environment. Otherwise, the computational and linguistic abilities necessary to write such a book would have been beyond human reach.

The argument I developed here holds not only for groups but also for individuals. Let’s consider cheating, for instance. In order to cheat another human individual, one has to deal with this other individual’s scale of preferences, so the cheater must have acquired human reason. But his computational abilities could not have developed from cheating. On the contrary, his computational abilities developed because of interpersonal free exchange—because of the market environment he inhabits. To outsmart his victim, the cheater must be able to operate at the complex computational level developed within a market environment. He must keep his computational system clean and safe, and, at the same time, he must be able to “poison” his victim’s system with false information. But in so doing, the cheater relies heavily upon the market environment. Deprived from this environment, he would soon become unable to do such complex computations.

⁷For a description of such processes, see Hayek, *Road to Serfdom*; see also Françoise Thom, *La Langue de Bois* (Paris: Julliard, 1987).

CONCLUSION

In general terms, once a market environment becomes available, human aggressors must rely on it in order to outsmart their victims. They are not intelligent themselves; they simply “borrow” reason and language from the market. On the other hand, combining reason and language with autarchic exchanges is a more expensive way to get and to keep what you want than is free exchange. Market predators pay too much for the goods they want. Traits like honesty and good faith develop because, within a market environment, they help individuals with such traits to pay less for the goods they desire than the individuals without them.

This is why market predation is not and cannot be a universal behavior. It is also why institutionalized aggression—in the form of governments, for instance—is too costly, and therefore less stable, than markets. Political history offers enough proofs.

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