Social Cooperation and the Marketplace
By Dwight Lee
Audio (8:44 minutes)

Question for thought: As you listen to this selection, think about the following: do free and open markets promote social cooperation?

The primary insights of economics come from explaining how individuals pursuing their own interests make choices that best enable others to pursue their interests as well. This social cooperation is not inevitable. It requires rules that motivate people to consider the concerns of others. The rules that accomplish this amazing feat define the free market economy.[1]

Free-market economies vary in their particulars owing to cultural variations. But the fundamental rules can be stated in terms of private property. Property is owned privately, and private owners have the right, within broad limits, to use their property as they see fit; rights to property are transferable on any mutually agreed-on terms. Before considering how these rules motivate social cooperation, let's see how remarkable that achievement is.[2]

Sounds Impossible

Full social cooperation would require that every person have information about the preferences of everyone affected by his decisions and on the constantly changing conditions that alter the relative scarcity of resources. For example, everyone considering using cotton products would have to be informed if a fad has Brazilian teenagers increasing their desire for denim clothing, or if the supply of cotton needed to produce denim is reduced by poor weather in Mississippi, or if new evidence suggests that respiratory problems may result from working in cotton fields. People would have to know literally millions of things that affect the consumption and production of thousands upon thousands of products to know enough to adjust their decisions in mutually accommodating ways. One might throw his hands up at this point and consider that requirement impossible to satisfy.

Transmitting information is only part of the problem. Even if it is communicated, people would still have to be motivated to act on it appropriately, to respond as though they were as concerned with everyone else's wellbeing as they were with their own.

But before concluding that social cooperation requires an information network far superior to anything even remotely available, and a level of compassion seldom practiced by ordinary mortals, consider that every day we benefit from exactly that type of social cooperation. Indeed, it is so common that most people take it for granted.

How Does It Happen?

What harmonizes the pursuits of billions of individuals who have little direct information about, or interest in, one another's circumstances? The answer is found in the information and incentives that emerge when people pursue their objectives in accordance with the marketplace rules of private property and voluntary exchange.

When property is privately owned and transfers are voluntary, the prices that emerge from the interaction of buyers and sellers communicate a tremendous amount of information. The price you observe for a product reflects how much value other consumers place on an additional unit of it. If the value that Brazilian teenagers place on denim clothing increases, their additional purchases will communicate this information throughout the world in the form of slightly higher prices for cotton products. Everyone who is considering buying these products will be immediately aware of their increased value to others. Prices also indicate the relative availability of different products, and the cost of producing more of them.

Market prices motivate people to respond as if they are as concerned with the interests of others as they are with their own. Consumers will respond to the higher prices caused by Brazilian teenagers as if the consumers are thinking, "Teenagers in Brazil tell us they value additional cotton in denim clothing by a little bit more than we value it in the cotton products we use; so we will reduce our consumption so Brazilians can increase theirs." Or in the case of evidence of health damage to cotton workers, consumers will respond to the higher prices as if they are thinking, "We will reduce our consumption of cotton products to reduce the number of people exposed to the risk in the cotton fields, and we will pay a little more to compensate those willing to take that risk."

Of course, it is primarily self-interest that motivates consumers to respond that way, rather than concern for people they will never meet. Indeed, higher prices tell consumers nothing about *why* cotton products have become more valuable. (Important information, of course, is also communicated through lower prices.) Market prices are efficient precisely because they do not overload consumers with irrelevant information.

Prices also motivate suppliers to respond to the interests of others. Obviously, higher prices tell suppliers that consumers want more of a product. Suppliers are strongly motivated to respond appropriately. But consumers also communicate information disagreeable to suppliers when they decide they want less of a product.

Consumers communicate to suppliers indirectly through the prices for labor, land, machinery, semi-finished goods, and raw materials (inputs). The prices textile producers, for example, pay for inputs reflect the value consumers place on other products that could be produced with those inputs. If those other products become more valuable to consumers, textile producers will receive this information through higher prices for their inputs, which are bid away by the other industries. Textile production will be reduced, and some textile manufacturers may go bankrupt. When a supplier reduces his output, or goes bankrupt, it is as though he is saying, "Consumers are telling me that the resources I am using are more valuable in other employments, so I will use fewer of them so others can put them to better use."

Blaming the Market for Its Success

The social cooperation that results from the information and incentives communicated through the market is not perfect. But no other economic system comes remotely close to the market in allowing people to achieve their objectives in productive cooperation with each other. The market is criticized mostly for its success rather than for its failure. It is commonly blamed for delivering news about scarcity. No one likes scarcity, but it is not caused by markets. Indeed, the wonder of markets is that they call to action those in the best position to respond. Blaming scarcity on markets makes no more sense than blaming fires on fire alarms.

The problem of scarcity will always be with us. But the social cooperation that is realized only through the marketplace permits us to push the limits of scarcity back farther than is possible under any other system.

Concluding questions: Do market prices encourage people to cooperate with each other? Does personal self-interest undermine the operation of the markets? Is social cooperation through markets important if we are going to get the most out of our resources? Explain.

Reference:

Lee, Dwight R. "Social Cooperation and the Marketplace," The Freeman: Ideas on Liberty - July 1998. Retrieved from the World Wide Web on 20 November 2014 at http://www.fee.org/publications/the-freeman/article.asp?aid=3457.

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[1] Adam Smith famously discussed social cooperation in terms of his "invisible hand." See *The Wealth of Nations* (New York, Modern Library, 1937 [1776]), p. 423.

[2] Readers are encouraged to reinforce the discussion in this section by reading F.A. Hayek, "The Use of Knowledge in Society," in his *Individualism and Economic Order* (Chicago: University of Chicago Press, 1980 [1948]). In my opinion, this is one of the most important economics articles ever written.