

The Effects of Markets on Society: What happens to a society when it is exposed to a price system?

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Abstract

According to economic theory, selfish optimizing behaviour ultimately benefits all. Yet, empirics show people become like a homo economicus—i.e. selfish and maximizing—when placed in a price system, which has moral implications. Here people use money to let others fulfil their desires, regardless of side effects. For this they must first attain money, which is done by fulfilling demand. When fulfilling demand, one only plays into desires of those who pay, unlike Mill's utilitarianism where one provides for all of society. Furthermore, demand consists of the preferences of the people in society weighted by budget. Homo economici therefore assign value to people based on their budget, creating extreme meritocratic utilitarianism. Notice, however, that someone who pays for a good is not necessarily better off because of it and those who use wealth and power to attain money are tyrants, in a Machiavellian sense, creating modern slaves.

Keywords: Price System, Homo Economicus, Demand.

JEL Codes: A10, A11, B5.

Introduction

Economics is usually defined as 'the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses' (Robbins, 1935, p. 16). One may be tempted to limit the study of economics to price systems, with money as an intermediary between scarce means and (infinite) human desires. A closer analysis, however, shows that the price system is merely a form the relation between human desires and scarce means can take. Currently money buys access to elite universities, immigration to countries, mercenaries or certificates to kill endangered species (Sandel, 2012, p. 3-4). Markets are so widespread in both our lives and the academic practice of economics that for many the price system, 'the economy' and markets tend to refer to the same thing. While the scientific domain of economics consists of all forms the relation between human behaviour and scarce means can take, and not just a market or price system.

Within their studies most economist do not concern themselves with moral questions, they believe economics is about explaining behaviour without judging (Sandel, 2012, p. 47). The amorality within most economics stems from the idea that the centre of economics—the market—is a place free of judgement. The market does not judge people's preferences, it only functions as a place that facilitates trade, connecting people who want to get something and are willing to give something else in return. When one tries to buy a new chair or sex the market does not ask how many chairs one has or when

someone had sex for the last time, it only connects the people that might want to make such an exchange. So, in other words markets ‘don’t pass judgement on the preferences they satisfy’ (Sandel, 2012, p. 14). This is not to say that people don’t have morals, economist hold that people will use their morals when acting in a market. Like those who attach special importance to sex—possibly because of their religion—will not make an exchange to attain sex. In theory, a market allows people to live according to their own morality, while enjoying the benefits of a market system, which I will elaborate on later. When most scientist transfer this idea into an economical practice that is free of morality, they implicitly assume that *the morality (and by extension the preferences) of people within a price system is not affected by living in a price system*. To examine this claim I will first introduce the homo economicus and the price system, to empirically examine whether people’s behaviour changes when they are exposed to a price system. Afterwards I will use these findings to examine a fictional society dominated by a price system, analysing behaviour and morality. To finally bring this into practice, by showing how this manifests itself in our society.

1. Homo Economicus

Rationality

Central to the homo economicus is his rationality, which enables him to make the “best” decision given his preferences and scarcity (Ng, 2008, p. 268; Urbina, 2019, p. 66). Primarily because rationality enables the homo economicus to process information and predict outcomes of his options, in an unbiased way. To do so the homo economicus must overcome all biases. In other words, the return a homo economicus expects from a decision should not differ from the expected return based on the information he has (Delgado-Rodríguez, 2004). One of these biases is time inconsistency, where an actor acts against his or her own interest and better judgement because of the state of mind they are in. Instead the rational homo economicus should contemplate ‘a removed, dispassionate perspective’ to overcome all biases (Hoch, 1991, p. 493). After overcoming all biases, the homo economicus should be able to make the “best” decision. Since overcoming biases includes casting emotions—such as sympathy—aside and making decisions indifferent to his state of mind, the homo economicus is also called a ‘cold calculator’ (Urbina 2019, p. 63). The rationale of the homo economicus can be related to a former meaning of the word ‘economy’—which used to refer to efficiency or thrift—and would express itself in using as little resources to accomplish as much as possible. Like travelling ‘economy’ class, which uses minimal resources to achieve the goal, namely to reach the desired location (Brown, 2015, p. 105). The homo economicus in a market system will—in line with the principle of ‘economy’—try to make the most of the money he has. As a consumer he will try to get the maximum return given his budget and or optimize his budget given a return. As a producer he will try to get the maximum profit given his production possibilities and costs.

Rationality in Practice

The maximization presupposes preferences, since preferences enable the rationality to “calculate” which option he prefers or in other words will give him the most satisfaction. These preferences must meet certain conditions to enable the homo economicus to use his rationality, in the first place they should be complete and transitive (Ross, 2012, p. 634). The property of completeness entails that an agent can relate all possible events to each other, so an agent always prefers one event over the other or is indifferent. An Agent’s preferences are transitive if preferring event A over event B and preferring B over C also means that event A is preferred over C. In practice two other properties are associated

with the preferences of the homo economicus, namely monotonicity and convexity (Ross, 2012, p. 634). Convexity implies marginal diminishing returns, or that the satisfaction one gains from an additional unit decreases with the number of units one has. Finally, monotonicity makes an agent always want more of something they originally desired, i.e. that the diminishing marginal return will never become negative if it was originally positive and vice versa. Together these assumptions imply that if a homo economicus prefers having two pairs of trousers over having a single pair of trousers, he will also prefer (but to a lesser degree) having 101 pairs of trousers over 100. Note that markets 'don't pass judgement on the preferences they satisfy' (Sandel 2012, p. 14), and will therefore not ask how many jeans this homo economicus has.

The "mathematization" of preferences explains how one acts rationally but not why one thing is preferred over another. At the centre of the preferences of the homo economicus lies an Hobbesian understanding of human nature; 'if any two men desire the same thing, which nevertheless they cannot both enjoy, they become opponents' (Hobbes, 1651, p. 87). So, men who face scarcity do not collaborate, instead they each fight for their own interest. In the homo economicus this translates to the characteristic of selfishness (Ng and Tseng, 2008, p. 268). Therefore, the homo economicus considers solely his own benefit when deciding, which does not make him opposed to acting in the interest of others, but this is never his goal. The homo economicus can, therefore, still act in the interest of others, provided this coincides with his own interest. Like the agent who Adam Smith speaks of who 'neither intends to promote the public interest, nor knows how much he is promoting it' (Smith, 1776, p. 363). This unintentionality is not a dealbreaker to Adam Smith.

2. Price System

Knowledge

In the 'Use of Knowledge in Society' Hayek advocates for a price system, which is a form the relation between human behaviour and scarcity can take. Hayek advocates for a price system because it is 'likely to be more efficient' (Hayek, 1945, p. 521). He believes a price system is more efficient because it incorporates more knowledge, compared to a central planning board or a single mind (Hayek, 1945, p. 519). Here Hayek distinguishes two types of knowledge, general and specific knowledge. Craftsmen, for example, may not have knowledge about the price system, instead they have an unparalleled understanding of what is required for their craft and how to practice it. Not only craftsmen but everyone possess specific types of knowledge, like whether he or she prefers event A over B. These countless pieces of specific knowledge are—according to Hayek—impossible to grasp by a central authority. The power of the price system is incorporating specific knowledge, which it does through prices.

The price system allows individuals to communicate their specific knowledge to other individuals, who act on this with their own specific knowledge. All knowledge is comprised in the price, in the price countless pieces of information come together in a single value. Any decision an individual can make, is influenced by almost everything that happens in the world. Since for any number of circumstances event A may be easier to attain for an agent than event B, according to Hayek the circumstances do not matter to the agent, or at least the reasons. The only thing that does matter is how much more or less difficult it is to procure an event and not why. A baker, for example, does not care for the nuances involved in the production of the bags he uses, like whether demand is high, or supply is low. All that matters for him is how hard it is to get a bag and the type of bag this is. The baker, therefore, concerns himself with two factors, the properties of the product and how hard it is to acquire said product. In a price system the baker is free to choose between different bags, here he will consider the final product and the price of this product. In this process the baker uses his specific knowledge in choosing the

product that fits his needs the best, while accounting for prices and by extension all specific knowledge that is comprised within this price.

Demand and Supply

So, the price system is a form the relation between scarcity and human behaviour can take. In the price system money functions as an intermediary between those who produce and consume goods. People sell goods they produce and use their money to acquire goods they desire. The exchange of goods takes place in a “market”, where the goods that are for sale (supply) goes hand in hand with consumers and their money (demand). Within supply and demand certain goods are rare and desirable while others are not, which is balanced through prices. If goods are rare and desirable buyers will face competition from other buyers, leading to high prices. While undesirable and common goods will lead to competition among sellers, which results in low prices. The balancing through prices steers what Smith calls the ‘invisible hand’, that makes selfish people act selfless (Smith, 1776, p. 364). For selfish individuals in a price system—such as the homo economicus—the market creates an incentive to act selflessly, since he can attain more money by creating more of goods that are more in demand. Therefore, a selfish actor starts to fulfil desires of others—by creating goods for which financial demand is high—to attain money, so he can fulfil his own desires. On this Hayek says, ‘the individual, while seeking his own interest, does what is in the general interest’, which Smith also called the invisible hand (Hayek, 1945, p. 529).

3. Price System and the Homo Economicus

In reality, people—or homo sapiens—are not the same as the homo economicus (Gintis, 2000, p. 311). This, however, does not exclude a relation between the two. I will now introduce three empirical studies that study the behaviour of people in three different settings. Afterwards, I will introduce the behaviour expected of the homo economicus in the same settings, to finally compare the homo economicus and homo sapiens.

Empirics

Fine and Fee

In a price system tools can be used to express morals in monetary ways, such as through fines and fees. Although both of these tools require immoral behaviour to be compensated with money, Sandel makes a distinction between the two. He holds a fee is the price that compensates for immoral behaviour, while a fine includes a penalty against behaving immorally (Sandel, 2012, p. 65). Like a pollution fee that allows pollution, given a monetary compensation that is used to offset the negative effects of said pollution. While a fine tries to punish immoral behaviour to nudge people to behave morally. Such as speeding tickets that express speeding is unacceptable, in Finland these tickets are scaled to income which results in tickets that exceed \$200.000 (Sandel, 2012, p. 66). In practice the distinction between fines and fees is not always as clear, such as shown in ‘A Fine is a Price’ (Gneezy, 2000). Gneezy empirically examines late pickups at day-cares, originally a late pickup constituted a violation of the principle ‘being on time’. With the intention to decrease the undesired behaviour of late pickups the researchers introduced a fee, introducing an additional tool that encourages people to

arrive on time. Gneezy found that after the fine was introduced the amount of late pickups actually increased.

Students

Ifcher tested whether being exposed to assumptions economist make, changes the behaviour of students. The students who participated first played four games, after which they were exposed to three different bodies of text, to finally play the four games once more (Ifcher, 2018, p. 55). In the first game every participant played one round as 'proposer' and one as a 'responder, with each round being played by a randomly paired proposer and responder. In the game the proposer bid, and the responder can either accept or refuse this bid. Only if the bid is accepted are the players awarded money, with the bidder receiving 20 dollars minus his bid and the responder the bid. The second game once again used randomly assigned pairs, where one person became the 'divider'. He or she was allowed to divide \$20 between him or herself and the other person in the pair. Everybody played this game as divider and receiver but not necessarily with the same person. Thirdly, participants were randomly placed in groups of 4 and all started out with \$20, which they could "invest" in a communal fund. This communal investment was then multiplied with 1.5, in the end everybody kept the money they did not invest and got a quarter of the communal fund. In the final game participants were randomly matched and took part in a prisoners' dilemma game (Ifcher, 2018, p. 56). After playing these games the participant read one of three short texts, one of which elaborated on the purpose of laboratory experiments, and another explained how laboratory experiments were conducted. The third group was faced with a different text, on the assumptions economists make about people when considering human behaviour, namely that people are selfish and maximize their own welfare (Ifcher, 2018, p. 57). Afterwards the participants repeated the played games, which enabled Ifcher to compare behaviour before and after treatment. Ifcher finds little difference between the groups that read texts on laboratory experiments, he did, however, find that participants who read the assumption text exhibited significantly more selfish behaviour in all games (Ifcher, 2018, p. 59).

Mice and Market

In the Mice and Markets study Falk examined the willingness of people to kill mice— which were a surplus from another study and live or die in isolation of the participants—to receive a monetary compensation in four settings (Falk, 2013, p. 707). In the isolation scenario people could either kill the mouse and receive 10 euros or let it live, here 46 percent chose to kill their mouse (Falk, 2013, p. 708). In the second scenario—called the bilateral trading market—people were paired and either became seller or buyer, only if a bid was accepted would the mouse be killed and would the players receive monetary compensation. The buyer could place a bid and if this was accepted, he gained 20 euros minus the bid, while the seller gained the amount of the bid. In the bilateral trading market 72 percent of people made a transaction and therefore killed a mouse (Falk, 2013, p. 708). The third scenario is the same as the bilateral market, except for the introduction of additional players, resulting in seven buyers and nine sellers. Here 76 percent of the people made a transaction that resulted in the killing of a mouse (Falk, 2013, 710). Therefore, the introduction of markets decreased the 'willingness to pay for the upkeep of these surplus mice', from 54 percent survival in the non-market scenario to 28 and 24 percent in the market scenarios (Falk, 2013, p. 707).

Homo Economicus

Recall that the homo economicus is selfish and maximizes his own welfare, he therefore pays little care to letting down workers at the day-care centre, since he only cares about himself. When considering if he will pick up his children on time, he will not factor in breaking the principle of ‘being on time’, as long as there are no costs he himself will suffer from this. In the example of the day-care, two reasons stand out that may encourage him to indirectly obey to this principle, namely reciprocity and monetary. Reciprocity can force the homo economicus to arrive on time, because when he gets threatened with being kicked out of the daycare it will be in his own interest to oblige. Secondly a monetary punishment may sway him to arrive on time, so he can avoid paying the fine. The homo economicus may also be willing to pay, in this case the fine becomes a fee.

The experiment by Ifcher tests for selfishness and actually speaks of behaviour that is in ‘accordance with traditional economy’, i.e. the homo economicus (Ifcher, 2018, p. 59). Within these experiments the homo economicus would prove to be selfish. So, in the first game, as a responder the homo economicus would offer as little of his endowment as possible, provided he believes his offer will still be accepted. As a receiver he will accept low bids, because less money is still more than no money. As a divider he would keep all the money to himself and as a receiver he has no choice but to accept the money he is given, especially because the experiment matches participants randomly and keeps them anonymous from each other which prevents reciprocity. Thirdly, the homo economicus could invest in a mutual fund, of which the return was his personal investment multiplied by a factor and divided by the number of people in the game. As long as the factor does not outweigh the division—which it does not in the experiment—the homo economicus will choose not to invest his money, since he expects a higher return from keeping it. Finally in the prisoner’s dilemma the homo economicus will choose to maximize his own wealth and not overall wealth.

A homo economicus with the option to kill a mouse—as in ‘Mice and Markets’—for money will make his ‘cold calculation’, as I discussed previously. Here his rationality will weigh his selfish preferences to decide whether to kill a mouse for money or not. Since the homo economicus is selfish he does not care for the intrinsic value of the mouse’s life, but only what this mouse can do for him. There is, however, no form of interaction between the participants and the mouse, therefore the homo economicus does not care about the mouse. The homo economicus does care about the money, which he can use in the price system to (partially) fulfil his preferences. Therefore, the “best” a mouse can do for the homo economicus is to die, so the homo economicus can receive a monetary reward.

Outcome

In the study of ‘Mice and Markets’ the homo economicus kills mice for monetary compensation. Empirically Falk showed that an increase in market interaction increased the number of mice killed and reduced the price for which they were killed, i.e. people acted more like the homo economicus as market interaction increased. Similarly, Ifcher found people express more selfish behaviour after they had been exposed to assumptions about human behaviour that economists tend to make, namely that economists assume people act selfish. This resulted in behaviour that became more in ‘accordance with traditional economic rationality’ (Ifcher, 2018, p. 59), or in other words more like the homo economicus. Finally, Gneezy examined a day-care that introduced a fine for late pickups. This fine was an additional cost—besides violating the principle of being on time—that people faced when arriving late, and this fine had a significant effect on the number of late pickups. The implicit assumption that markets do not influence morals would suggest a decrease in late pickups, since the monetary incentive would create an additional reason to arrive on time. The empirically found increase in late

pickups can, therefore, only be explained when one realizes the original principle of 'being on time' is (at least partially) replaced with a market principle, where people consider their payment a fee for arriving late. These three studies illustrate the effect a market has on people, it changes their behaviour in at least the domain in question, where it erodes their original morality and replaces it with a market morality. These examples can, however, never live up to the lifelong exposure to markets, which may even spill over into other domains. All this suggests that the more a society exposes people to markets the more their behaviour and morality becomes in line with the homo economicus. In other words when homo sapiens are placed in a price system they become like homo economici.

4. Homo Economici in a Price System

The next part of this article will take the previous finding—that people become more like the homo economicus when they are exposed to markets—to the extreme, by examining a market that is filled with homo economici. Within a market money becomes a tool for the homo economicus, which he spends to fulfil his preferences. Since the rationality of the homo economicus will realize that others can and will fulfil his preferences, if he pays them for this. A homo economicus may choose to buy a bread instead of making one himself, here the homo economicus can enjoy bread without growing wheat, grinding it into flour and getting up early to bake it, he only has to pay for it. Similarly, the baker does not need to grow and grind his own wheat, instead he may buy flour. The 'marvel' of prices in turn incorporates all costs that went into the bread—from creating wheat to the baking itself—and intermediates between production and demand to create the price (Hayek, 1945, p. 527).

Spending Money

When the homo economicus buys a good, he does not suffer the costs that come with creating said good, like getting up early to bake bread. The homo economicus also does not care for costs others suffer because of his choices (like I discussed in part 1), instead he suffers another cost, namely the price of the good he buys. Besides this obvious cost I will discuss two other types of cost the homo economicus can suffer, he can suffer directly from a side effect or indirectly through reciprocity. Almost all products have side effects, like the baker who produces noise early in the morning to bake his bread. The people who live close to the bakery will suffer this cost, but because the homo economicus is selfish he is indifferent to the costs others suffer. He does, however, care for the costs he himself suffers, like if he lives close to the bakery. But even if the homo economicus suffers more from the noise than he gains from the bread, he will still be reluctant to change his behaviour. Since ceasing his consumption of the good will have a limited impact on the production of the good. For if the baker were to lose one customer, he will likely still continue his business. This direct cost is therefore of little influence on him, but indirect costs may still prove to be influential. Reciprocity entails a society that rewards behaviour it considers to be positive and punishes behaviour it considers to be negative, of which the day-care study provides an example (Gneezy, 2000, p. 4). Here parents who regularly failed to pick-up their children on time could end up getting kicked out of the daycare. The homo economicus would not mind arriving late, as long as the consequences are minimal. When the day-care starts to threaten kicking his children out, the homo economicus gets forced into changing his behaviour or accepting the consequences of his actions. Reciprocity can therefore be a powerful tool but relies completely on the degree that it is exercised by the society. This becomes problematic when everyone acts like a homo economicus, because reciprocity then disappears.

Attaining Money

General Interest

To satisfy his preferences through the market the homo economicus will have to attain money. Smith holds that the invisible hand encourages a selfish actor—such as the homo economicus—to act in the interest of others and enlarge the ‘general interest’ (Hayek, 1945, p. 529). The general interest consists of the interest of all individuals and is enlarged when the interest of some people are met, or in other words preferences are fulfilled (Smith, 1776, p. 364). The supposed power of the price system is that prices signal for which preferences demand is highest and those who fulfil these preferences are rewarded the most. When maximizing his income, the homo economicus will play into this demand and provide goods and services for which demand is high. In this process the homo economicus provides for those that buy and consume his services, implicitly his work is only enjoyed by these individuals and not other people nor the public as a whole.

I will make two distinctions between this general interest Adam Smith speaks of and other interests that transcend the individual, for which I will address the ‘public good’ that is present in Machiavelli’s work and the empathy from Mill’s work (Mill, 1863; Machiavelli, 1532 [1954]). Machiavelli is often read as a man without morals, since he believed leaders should resort to immoral ways to achieve their goals when due to ‘Fortuna’—factors that are beyond the rulers control—moral ways proved unsuccessful (Machiavelli, 1532 [1954], p. 177–78). The homo economicus may seem similar to Machiavelli’s views, but he has a different motivation. The homo economicus is primarily selfish while Machiavelli believes good men act selflessly and tyrants are selfish (Giorgini, 2019, p. 58). Secondly, the invisible hand only encourages selfish actors to act in the interest of a particular group, while Machiavelli’s general interest, instead, is related to ‘aggrandizing the state’ and ‘saving the state’ or in other words acting for a common goal (Giorgini, 2019, p. 60). Similarly, in ‘Utilitarianism’ Mill speaks of sympathy, when discussing how people should act. Mill holds humans feel empathy not only for their offspring, but the community as a whole (Mill, 1863, p. 75). Mill goes on to say that people sympathise ‘with all human, and even with all sentient, beings’ (Mill, 1863, p. 75). Creating a “holistic” doctrine that acts selflessly not for selfish reasons, but out of an appreciation of others. This appreciation is not limited to certain individuals within a society, instead it applies to all individuals in society and by extension to society itself. So, the homo economicus who seeks to maximize his utility, is not in line with Mill’s view of utilitarianism. Firstly, because the homo economicus does not act out of empathy, but out of self-interest. Secondly, because even if the price system aligns these selfish interests with the interests of others, they are not aligned with the society as a whole. Instead of improving overall utility the homo economicus only provides for the select few to who the homo economicus sells his services. The utilitarianism found within a homo economicus in a price system may therefore be called ‘individual utilitarianism’ because it primarily concerns itself with the utility of the producer and the consumer, i.e. individuals and not society as a whole.

Weighted Demand

If the homo economicus will only serve certain individuals within a price system, who will these be? When Smith speaks of the general interest it suggests that everybody will serve each other within a price system, making it sound like everybody is served equally through the price system. Which sounds probable but does not mean that everyone will receive the same amount of service from the price system, equal serving presupposes that everyone’s sum of preferences is equally represented in the market system. It is true that market demand is the sum of all individual demands, but I argue this only holds when one fails ‘to distinguish between the willingness to pay and the ability to pay’ (Sandel, 2012,

p. 63). This can be explained when one recognizes a step between market demand and the non-market individual preferences, or what I just called individual demands. In this intermediary step personal preferences are expressed in the personal budget. This is illustrated by comparing a homeless and a wealthy person. The homeless person has little money and to survive primarily spends money on food. While the wealthy person may find food very important or disdain cooking, he therefore always eats out. Both may spend half of their budget on food, in a non-market way they assign the same value—namely half their budget—to food. In the market sense, however, the homeless person expresses substantially less value for food than the wealthy person, because half the budget of the homeless person is smaller than half of the wealthy person. Since the market demand—or the sum of market preferences—consists of the sum of all these budgets the wealthy person influences the market demand more and is therefore represented to a larger degree than the homeless person, who has a more modest budget. This illustrates a form of power money brings, when one starts to consider spending money as a form of voting. Since every time someone purchases a good this person uses his or her money to “vote” on the good in question. With their vote people vote for all things that were involved in the final product, therefore they implicitly do not vote for all things that were not involved in the final product. If one buys a bread one votes for a bakery, the suppliers of this bakery, the baker of this bakery and so on. One does not vote for other bakeries nor for other bakers. These votes matter, because the baker with the most votes, or most money spent at their location, can survive where others cannot, in the sense that they turn a profit instead of making a loss. The inequality shines through when one realizes that twice as much money buys twice as many votes. Therefore, practices that are valued by a wealthy person gain more market recognition than those that are valued by a person with modest means, creating a discrepancy between market appreciation and actual positive impact.

$$\text{Interest of the Community} = \Sigma \text{Individual Interest} = \Sigma (\Sigma X_i)$$

$$\neq \quad \text{Given: } \frac{B}{\frac{\Sigma B}{n}} \neq 1$$

$$\text{Market Demand} = \Sigma (\text{Relative Budget} \cdot \text{Individual Interest}) = \Sigma \left(\frac{B_j}{\frac{\Sigma B}{n}} \cdot (\Sigma X_i) \right)$$

In which B stands for individual budget, n the number of people in the population and ΣX_i is an approximation of individual interests. So, to be more precise, the market demand is the *weighted* sum of individual preferences, where the weight an individual's preferences carry in market demand is determined by their budget. The homo economicus who tries to attain as much money as possible therefore also assigns different weights to the preference of different individuals. He will try to fulfil preferences of those that are willing to pay the most for his services, for which they must first be able to pay him. Therefore, the invisible hand and by extension the price system not only produces inequality in terms of outcome, like successful people being rewarded with more money and by extension goods. Since in the process of appreciating people's work the larger one's budget the more one determines the worth of goods and the smaller one's budget the less one determines the worth of goods. Creating a system that values people's preferences on the basis of their budget, creating—besides an inequality in wealth—an inequality in worth. Note that the same principle applies to the knowledge Hayek spoke of, because this knowledge is comprised within prices. The higher one's budget, the more weight one's knowledge carries in the price system and vice versa. Therefore, the knowledge comprised within the price system is not representative of everyone's specific knowledge but biased towards higher budgets.¹ For the homo economicus this makes it even more important to

¹ To counteract these effects financial means could be redistributed, to ensure everyone has the same—or at least a comparable—budget. A basic income could, for example, create a price system where equal weight is

earn substantial amounts of money, not only to fulfil more of his preferences but also to make sure his preferences are “heard” by the market system.

The weight assigned to preferences introduces an inequality which requires a refinement of the individual utilitarianism I previously discussed. This nuance is captured by introducing Young’s idea of meritocracy, which holds inequality is inevitable and the least objected form of inequality is based on merit (Young, 1994 [1958], p. 122). The principle of merit accepts inequality if ‘a man won a good job after having fought his way up the educational ladder’ (Young, 1994 [1958], p. 123). Here people can “earn” their position in society explicitly by working hard, implicitly they need to have a chance, so their efforts are not in vain. To achieve an equal playing field education should give opportunities to everyone—including the ones from lower classes—so they can make the most of their talents (Young, 1958, p. 129). For the homo economicus in a price system the consumption and wealth he acquires becomes his merit, based on the market’s appreciation of his production. This nuance transforms the previously discussed individual utilitarianism into an extreme case of meritocratic utilitarianism, which is extreme because it has not only inequality in wealth but also in value.

Sandel notices that a meritocracy does not prevent inequality, it just bases it on a less objected principle (Sandel, 2020, p. 164). At the same time, he questions the implications of a meritocratic form of inequality, which implies that the successful deserve to be part of a higher class and those who are less successful deserve to be part of a lower class. He holds that in a meritocracy higher classes start to look down on the lower classes because they believe their success is to their own doing (like people feeling entitled to the money they earn), unlike for example an aristocracy where classes realized their position in society was arbitrary. Sandel, however, holds that success in a meritocracy is based on a combination of talent and hard work. Talent and the degree to which one’s talents are appreciated are not something one earns, it is—just like the wealth one can be born into—a matter of luck. With talent being arbitrary success also becomes arbitrary, because no matter how hard one works, he or she is always limited by their talents (Sandel, 2020, p. 175).

The discrepancy between market appreciation to the actual positive impact exists in the first place in the inequality in worth, i.e. that the preferences of certain people carry more weight. In the second place, it becomes larger when one considers whose preferences are considered more. Since the price system not only places emphasis on the preferences of certain people (those with larger budgets), but the people who could benefit the most have a smaller say (those with smaller budgets). Since diminishing marginal utility entails that the more one has, the less one gains from another unit. Or that a person with 2 trousers gains more from additional trousers than an otherwise identical individual with 100 trousers. So, in a utilitarian sense—and to homo economicus—people with less wealth benefit more from an additional unit of wealth. Contrarily the price system emphasises based on budget, where with an increase in budget comes an increase in wealth and a decrease in marginal utility. Therefore, the price system places opposite emphasis, compared to a system that maximizes overall utility.

The aforementioned illustrates the curious way the homo economicus acts selflessly, with his selfish motives. One must, however, recognize that the translation from selfishness to selflessness also comes with caveats, of which I will discuss two. Firstly, the homo economicus does not have to actually improve the lives of others, they only need to pay him. The selfish homo economicus may, for example, make people addicted to his product. In a market sense this is attractive because it creates present and future customers, but this is likely not to benefit these customers themselves. Secondly, the homo

assigned to everyone’s knowledge. Instead of the overvaluation of wealthy individuals’ knowledge, this would lead to a price system that ‘is likely to be more efficient’ (Hayek, 1945, p. 521), turning Hayek on his head.

economicus can use his time and energy to produce, but as Marx already explained and critiqued, he may also use his wealth to produce, provided he has wealth (Marx, 1867 [1990], p. 169). Notice that the possibility to enlarge the wealth one has through his or her own wealth enables individuals to consume goods made by others, without working and producing goods themselves. Since—when selling—homo economici and thus the market do not distinguish between ways buyers have enlarged their wealth (e.g. through labour or capital income), they do not care about the one that pays, only how much one pays. Additionally, as the amount of wealth increases creating wealth through wealth becomes more attractive, in part because of the power that comes with large amounts of wealth. Since an owner can (ab)use his or her property in any way he or she sees fit, making the owner the “ruler” of his property. The control owners exercise over their property, implicitly makes everyone else control-less over said property. The selfish homo economicus will, obviously, rule his property to maximize the financial return it can give him, making him a tyrant in the eyes of Machiavelli. The tyranny of the homo economicus can easily take over entire spheres, this becomes especially problematic when a substantial part of a domain—such as the place of public discourse—falls under the rule of homo economici. For these homo economici care little for the purpose of these domains—such as facilitating free speech—but primarily what it can do for them, i.e. make them money. In a price system filled with homo economici public discourse therefore becomes subject to individuals that control the space of public discourse. These individuals rule this space as tyrants and will not shy away from measures such as suppressing certain ideas or even casting out people, if it aggrandizes their wealth. This control clashes—among other things—with Mill’s view on freedom of speech. He holds no opinion should be suppressed, since an opinion that is true and is oppressed robs humanity of knowledge, and even false opinions should not be oppressed because they allow humanity to sharpen their knowledge (Mill, 1859, p. 18).

Together these two caveats explain how a price system not only exists out of homo economici that work—i.e. produce—to be able to buy goods—i.e. consume. Instead, some use their wealth and the power that comes with wealth to make more wealth, which need not improve the lives of others.

In Practice

In this final part, I will examine our society; by discussing the influence our price system has on the world and the extreme cases this leads to. These extreme cases are more and more prevalent in our globalized world—where the consequences of our actions can be so far away that they become all but invisible—and illustrate the effects of our price system. To a degree these effects apply to all facets of what is generally referred to as “the economy”.

In our world the introduction of a price system changes people—at least in certain facets of their lives and to a certain degree—into homo economici, making them more selfish, which expresses itself in maximizing their money. Our price system consists of wealthy individuals who do not produce value themselves, as opposed to the working class. Instead, these individuals let their wealth and power create wealth for them, which results in more money for themselves. Those who do work in the price system (i.e. everyone else) are financially encouraged to fulfil the preferences of extremely wealthy individuals, instead of fulfilling the preferences of the people who could use the help the most, because of the idea of weighted preferences. Making it financially viable to spend years fulfilling a minor need of a wealthy few, instead of providing major services to the many. In our world this price system translates into extreme cases, like yacht builders who—in line with the homo economicus—actually choose to create superyachts for tech billionaires, instead of sheltering children in Africa. These tech billionaires gain their wealth from touching the lives of hundreds of millions of people with their property,

but whether their technology and applications change our lives for the better or destroy—among other things—the public debate is another question.

This question is, however, irrelevant to these tyrants who search to aggrandize their own wealth by employing people who help them in their search. Said tyrants make the working class want to work for them by paying them more, which they can do because they are not only willing to pay them but also able to pay them more. This makes the jobs these tyrants offer financially attractive and therefore highly coveted by the working class. Those that become chief officers end up making millions of dollars and in turn express their preferences in the price system. The preferences of these chief officers carry a lot of weight in our economy, because these chief officers have large budgets. These preferences are in their turn fulfilled by other people from the working class, whose preferences are also fulfilled by people in the working class. Creating a financial “ladder” that gets more and more crowded the more one goes down, with less money per individual with every step. In our world the people at the bottom of this ladder are—among other places—found in Asia, where millions of people work in factories to create products for the “wealthy” western world. These factory workers are only paid a fraction—sometimes not even 0.1%—of what the chief officers and owners make (*Company Pay Ratios*, 2024). Therefore, their preferences carry little to no weight in the price system. So, they lose control over their lives. This has become so extreme that people have coined the term ‘modern slavery’ to illustrate how irrelevant the desires of these groups of people have become to the market.

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