The Morality of Markets. A Critique

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Abstract

Dewatripont and Tirole (2024) defend the morality of markets on the ground of an irrelevance result: the social production of moral actions is independent from competitive pressure on markets. No matter how strong competitive pressure is, markets perform well in diffusing signals about moral values and in coordinating suppliers of moral actions. In this article, we argue, on the contrary, that markets lead to a double crowding out of moral values: first, imperfect transmission of moral values on markets leads to an underproduction of moral actions despite the presence of highly ethical suppliers; second, competitive pressure on markets favors the eviction of highly ethical suppliers by less ethical suppliers. Furthermore, we highlight that this double crowding-out restricts the normative scope of the irrelevance result, and raises the question of what the division of moral labor should be between citizens, firms and States.

Keywords: Competition, markets, morality, crowding out.

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1 Introduction

—*Is the market moral*? This question arguably admits many different answers, depending on what is meant by "moral". In economics, markets are often justified on the stance of their *allocative efficiency*. In this perspective, the two fundamental theorems of welfare economics formally provide a strong normative argument in favor of the morality of markets. However, in their recent paper, Dewatripont and Tirole (2024) defend the morality of markets in a deeper and broader sense: markets are not only efficient at coordinating suppliers in the production of goods and services, but, also, in the production of "virtuous activities". Dewatripont and Tirole defend the morality of markets on the ground of an *irrelevance result*: the social production of moral actions is independent from competitive pressure. No matter how strong competition is, markets perform well in diffusing signals about moral values and in coordinating suppliers of moral actions. The goal of this short paper is to reexamine the interpretation and implications of Dewatripont and Tirole's irrelevance result. Let us first briefly present the model.

Dewatripont and Tirole (2024) consider an economy with n firms $\{1...n\}$ and an outside option 0. Each firm has two (observable) choice variables: a price $p_i \in \mathbb{R}^+$ and a "morality" level $a_i \in [0, \overline{a_i}]$ viewed as a feature of the activity of the firm. Consumers, who express material and moral motives, face a net price:

$$\hat{p_i} = p_i + \phi(a_i) \tag{1}$$

from which results a demand function $D_i(\hat{p})$ with $\sum_{i=0}^{n} D_i(\hat{p}) = 1$. Thus individuals are essentially viewed as consumers of the morality "produced" by firms. The term $\phi(a_i)$ (with $\phi''(a_i) \geq 0$) stands for the monetary equivalent (or shadow value) of the moral choice a_i made by firm i. This is exogenous to the model.[1] Consumers are *socially responsible* if $\phi'(a_i) < 0$ and *socially neutral* if $\phi'(a_i) = 0$. Each firm faces a cost $c_i(a_i)$ of taking a moral action a_i (with $c_i'(a_i) > 0,\ c_i''(a_i) > 0$). Action a_i has a welfare impact $W_i(a_i)$ (with $W_i'(a_i) > 0,\ W_i''(a_i) < 0$). Firms maximize profit and also have "social preferences" represented by the function $\mathcal{W}(a, \hat{p}) = \sum_{j=0}^{n} W_j(a_j) D_j(\hat{p})$ which stands for the internalization of the social welfare by each firm. The firms' augmented profit maximization problems are thus:

$$\max_{p_i, a_i \geq 0, a_i \leq \overline{a_i}} (p_i - c_i(a_i)) D_i(\hat{p}) + \alpha_i \mathcal{W}(a, \hat{p}) \tag{2}$$

where α_i is a (common knowledge) parameter standing for the intensity of the firm's social preference. The first-order conditions of problem (2) lead to:

$$\alpha_i W_i'(a_i) - \phi'(a_i) = c_i'(a_i) \tag{3}$$

which is the *irrelevance result*. The right-hand-side (RHS) of the equation is the supply of moral actions, while the left-hand-side (LHS) is the demand for moral actions, which comes from two sources: moral concerns of firms (first term of LHS) and moral concerns of consumers (second term of LHS). Equation (3) establishes that—remarkably—the allocation of the firms' morality choices a_i is independent

[1] Unlike Dewatripont and Tirole (2024), we assume that consumers adopt a unique metric for valuing the morality choice of all firms (ϕ is not indexed by i). This has however no impact on the discussion. We also abstract from the case of "socially irresponsible" consumers ($\phi'(a_i) > 0$), to focus instead on the case of "socially responsible" consumers ($\phi'(a_i) < 0$).

of the demand, thus *independent of competitive pressure*. Intuitively, this result reflects the combination of two mutually offsetting effects—a "market share effect" and a "reduced stake effect": on the one hand, an increase in competition reduces the markups which fosters the firms to cut ethical corners ; on the other hand, as markups decrease, social preferences tend to loom larger relative to material profit in firms' objective.

The purpose of this note is to reexamine the implications of this irrelevance result. Before turning to the positive content of the irrelevance result, let us first clarify its normative scope. Should the irrelevance result be understood as an argument *for* the market? The title *The Morality of Markets*, as well as parts of the introduction and the conclusion of that article, might suggest that it has significant normative implications. It claims, for example, that the paper's irrelevance result provides a "strong warning against the wholesale moral condemnation of markets and pro-competitive institutions".[2] But these claims should not make us overstate the normative content of the irrelevancy result. Without specifying, by means of a social welfare criterion, what the *good* allocation of moral actions a_i is—that is, without clarifying *which morality*—, it is impossible to conclude anything about the goodness of the allocation achieved by the market, as expressed by equation (3). Alone, that is, without normative premise or welfare benchmark, the irrelevance result is *normatively mute*: it does not show that the market performs better than another institution in the provision of moral actions.

Before returning to the normative interpretation of Dewatripont and Tirole (2024), the present paper shall first focus on the positive content of the irrelevance result. Indeed, the irrelevance result provides a rich positive analysis of the impact of the market on morality by examining the question "does the market—in particular, competitive pressure—crowd out moral values?". At first glance, the irrelevance result seems to answer: *No*. This paper aims at providing some nuances to this *No*. We show how Dewatripont and Tirole's model can be extended to cast light on various facets of the crowding out of moral values on markets, and, hence, on the morality of markets. Since the demand of morality (LHS of equation (3)) comes from two sources—consumers and firms—we will proceed in two steps, examining in turn the crowding out of moral values of consumers (term $-\phi'(a_i)$ in equation (3)) in Section 2, and the crowding out of firms' moral values (term $\alpha_i W_i'(a_i)$ in equation (3)) in Section 3. Our reexamination of the irrelevance result leads us to conclude that *markets can crowd out moral values, either by failing to transmit perfect signals about consumers' moral values, or by favoring the replacement of highly ethical suppliers by less ethical ones.* As we shall conclude, in the end of Section 3 and in Section 4, this double crowding-out does not only restrict the normative scope of the irrelevance result, but it also raises the question of what the division of moral labor should be between citizens, firms and States.

2 Crowding out of consumers' moral values

Since the production of moral actions a_i follows from moral concerns expressed by consumers, an important assumption of Dewatripont and Tirole's model—underrated

[2]For instance, Dewatripont and Tirole refer to the criticism of Sandel (2012) against markets as sources of degradation (see *infra*).

in the paper, in our opinion—is whether or not consumers do, in fact, exhibit moral concerns in their daily purchase decisions on markets. The model implicitly assumes that *moral concerns held by individuals will effectively be expressed in the market*: $\phi(a_i)$ is assumed to be exogenous (it is not influenced by the market nor by competitive pressure) and to reflect the "true" moral preferences of individuals, that is, to convey all relevant moral information. There are reasons to be sceptical about this assumption.

From a psychological viewpoint, three cognitive mechanisms can erode moral concerns in a market context (Falk and Szech, 2013). (i) In markets, feelings of guilt are shared and thus diminished, so agents feel less responsible for the consequences of their action—in particular, a related notion is what has been called the perception of "being pivotal" Falk et al. (2020).[3] (ii) The fact that, in markets, individuals observe others making trades can make it appear socially acceptable, therefore diminishing moral awareness. (iii) The market provides a strong framing and focus on materialistic aspects, which may divert attention from moral implications of trading.

When considering the relationship between ethical norms and market norms, some philosophers, like Sandel, argue that the market is *not* a *neutral* instrument that serves human actions. Markets do not only allocate goods, "they also express and promote certain attitudes towards the goods being exchanged." (Sandel, 2012, p. 9) This view, grounded on common sense moral intuitions, simply asks—where do these moral preferences $\phi(a_i)$ come from? Should morality be viewed as exogenous "reason-blind" individual preferences, as private tastes, or as mere sources of psychological satisfaction? Or are these also expressing some forms of shared understanding (Walzer, 1983) and common values[4], that need to be discussed and cultivated, the market being not necessarily the most favorable environment for them to flourish. According to this view, individual moral preferences are not simply given and, to some extent, satisfied through the market, they are also informed and influenced by it. Institutions (for example, the market *versus* a "deliberative institution") define the "logic of a situation" which shapes the moral concerns that are expressed. Assuming individuals have both private—or material—preferences and social—or moral—preferences, resorting on markets may exacerbate the first, as opposed to "deliberative institutions" that will promote the expression of the second.[5] In sum, these psychological and philosophical viewpoints insist on the role of the institutional context as a *cognitive* and *normative* framework that shapes the values that individuals are expected to express (Vatn, 2005).

The crowding out of consumer's moral values has also been observed in experiments. "Protest bids" are frequently observed in compensation variation studies

[3]Note that the importance of the "awareness of responsibility" as a determinant of the willingness-to-pay for a moral outcome has also been highlighted in empirical works (Liebe et al., 2011).

[4]A connected but broader critique, which we do not elaborate here, relates to the implicit assumption made by Dewatripont and Tirole (2024) that morality is, as any quality of goods, a *private* good which is "depleted", so to speak, by the consumers when consuming the good they purchase on the market. While one could argue that the very nature of morality is to be a *public* good—a common good that we *all* benefit from, and that is not depleted with use: I would rightfully be upset by the existence of a highly unethical firm i, even if I am not a customer of firm i.

[5]Material preferences do not require a justification: they are the subjective—"reason blind"—preferences of individuals. On the contrary, the expression of moral preferences requires that individuals decenter from their private interests. Moral preferences require a justification—they should withstand to a public debate—, and the market does not ask for it (O'Neill, 2016).

concerning the valuation of environmental goods (Vatn, 2005). They are generally regarded as an expression of the rejection by individuals of the reliance on markets to perform moral actions. A recent study by Frey and Pirscher (2018) illustrates these protest bids in a context where firms take moral decisions about animal welfare (for example, firms may decide to invest into more space for laying hens). These moral decisions are conveyed to consumers with "labels" on goods that are purchased and individuals express their moral concerns through a willingness-to-pay (WTP) in the market. The study shows evidences that "market-based instruments cannot capture certain moral values": a non-negligible proportion of subjects express moral concerns for farm animal welfare but do not translate it through a positive WTP in their consumption decisions in the market. Another famous—although controversial[6]—German study by Falk and Szech (2013) provides empirical evidence of the erosion of moral values in a market context. Their results highlight the dependence of the WTP of individuals for a moral action to the institutional context. In their "mouse experiments", individuals are confronted to a decision of either or not killing a mouse (a_i) for some payments. The WTP ($\phi(a_i)$) for not killing the mouse turns out to be significantly higher in a non-market environment than if the market is used to express the moral preferences of individuals.

The aforementioned theoretical and empirical evidences question the assumption stating that the true moral preferences of consumers are perfectly expressed in the market demand. In the remaining of this section, we slightly extend the model of Dewatripont and Tirole (2024) to account for the possibility of *imperfect* transmission of moral values in the market.[7] For that purpose, we assume that individuals hold a moral concern $\phi(a_i)$ but express a concern $\beta\phi(a_i)$ in their purchases on the market. There is a perfect (resp. imperfect) transmission of moral preferences in the market if $\beta = 1$ (resp. $\beta < 1$). The parameter β accounts for the possibility of an *eviction* of consumers' moral values on markets. While the "true" value for individual agents of the moral action a_i is $\phi(a_i)$, only $\beta\phi(a_i)$ passes through the market, so that the net price is:

$$\hat{p}_i = p_i + \beta\phi(a_i) \tag{4}$$

While Dewatripont and Tirole implicitly assume $\beta = 1$ (perfect transmission of moral values on markets), the case where $\beta < 1$ stands for an *imperfect transmission*—individuals do not express fully their moral concern in the market.

Proposition 1. *Under imperfect transmission of moral values, the allocation of a_i by the firms is given by*

$$\alpha_i W_i'(a_i) - \beta\phi'(a_i) = c_i'(a_i) \tag{5}$$

Let a_i^* be the equilibrium morality choices under perfect transmission ($\beta = 1$) and $\hat{a}_i$ be the equilibrium morality choices under imperfect transmission ($\beta < 1$). Then $\hat{a}_i < a_i^*$.

[6]Breyer and Weimann (2015) have criticized the assumptions and conclusions of the experiments, which led to further clarrifications from Falk and Szech (2015). Other empirical studies exhibited more mixed results regarding the erosion of the morality by the market (see the survey by Choi and Storr (2023)).

[7]Note that assuming imperfect transmission of moral preferences on markets is weaker than assuming that markets shape moral preferences, or assuming that some moral values cannot be properly expressed as a willingess-to-pay, as argued by Sandel (2012).

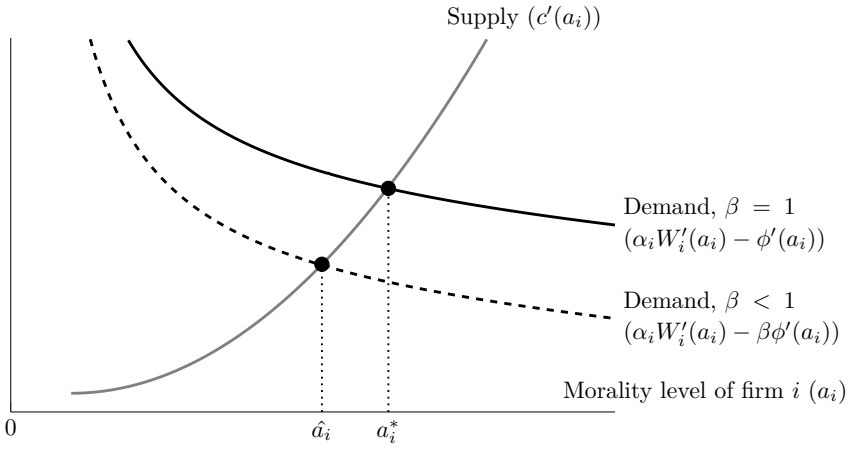

Figure 1: Equilibrium morality choice of firm i (a_i) under perfect ($\beta = 1$) and imperfect ($\beta < 1$) transmission of moral preferences in the market.

Figure 1 illustrates the reasoning graphically. Expression (5) can be viewed as defining the equilibrium a_i as the intersection of the supply cost of morality (RHS) and the demand for morality (LHS). The latter includes both the firm's and the consumers' value of morality, as expressed in the market. Under imperfect transmission of moral values, the irrelevance result still holds, but the consumers' value of morality is scaled down by β, leading to a lower morality choice by firms. If the market crowds out consumers' moral concerns ($\beta < 1$), the irrelevance result shows that it leads to a lower level of morality implemented by firms performing moral actions.

In sum, this section qualifies the sense in which markets can be seen as "moral" in the light of Dewatripont and Tirole's irrelevance result. The morality of market, according to the irrelevance result, relies on its moral *neutrality*—its nonjudgemental stance towards individual values: the market just passes the information it receives from consumers to firms, without judging it. However, as argued in this section, the mere fact that the social production of moral actions is invariant to the degree of competitive pressure does not guarantee that the level of production of morality resulting from free markets fully reflects consumers' moral values. Markets can only be "moral" provided these allow for the perfect signaling and transmission of consumers' moral values.

3 Crowding out of firms' moral values

Let us now examine the moral concerns held by firms. The relationship between the market structure and the (im)possibility of firms' ethical behavior was the object of a book by Baumol (1991). According to Baumol, "perfect market forms impose vice rather than virtue" to firms (Baumol, 1991, p. 3). Baumol's argument goes as follows. Any prosocial behavior that is not used in the standard production process (for instance, prosocial investments in poor neighborhoods) is equivalent to a wasteful activity. In a perfectly competitive and contestable market, any waste of resource is precluded: a firm that would not use resources efficiently would be underpriced by

a competitor who is making a more efficient—or less scrupulous—usage of resources. As a consequence, firms could only engage into virtuous—*wasteful*—activities if they enjoy some market power. Competitive pressure pushes virtuous firms out of the market.[8] (Firms could pursue some social goals in a competitive market, but only if, *incidentally*, it is aligned with the maximization of profits: for example, for advertising purposes, to attract consumers or for hiring.) Similarly, Shleifer (2004) argues that competition "destroys ethical behavior" of firms, exhibiting examples such as employment of children, commercial activities of universities or corporate earnings manipulations.

Analyses by Baumol (1991) and Shleifer (2004) of the perverse effects of market competition for ethical behavior are in striking contradiction with Dewatripont and Tirole's irrelevance result, according to which the degree of competition on the market does *not* affect the supply of moral actions. Although Dewatripont and Tirole do not, in their article, refer to these previous works, they propose, in section 4.3 of the article (and online appendices F and G), a first step towards including these concerns, by exploring what happens when a financial viability constraint is introduced in their framework. Section 4.3 shows that, once the break-even constraint is introduced, the equilibrium amount of moral action may decrease with competition, because of the crowding out of ethical suppliers by less ethical suppliers. Whereas that crowding out result strongly qualifies the scope of the irrelevance result—it tends to make the irrelevance result somewhat "irrelevant" for real-world economies—, Dewatripont and Tirole do not seem to deduce all its normative implications for the question of the morality of markets. Actually, this negative finding does not prevent the authors from arguing that their analysis issues "a strong warming against the wholesale moral condemnation of markets and procompetitive institutions".

The goal of the present section is to complement Dewatripont and Tirole's analysis, by drawing and illustrating some implications of the crowding out of ethical suppliers by non-ethical suppliers for the scope of the irrelevance result, in such a way as to better reconcile the analysis of Dewatripont and Tirole with the ones of Baumol and Shleifer.[9] We then discuss some normative implications of our main findings.

One paramount feature of the analysis of Baumol (1991) and Shleifer (2004) is that it includes the eventuality for a firm to leave the market in case it is unprofitable. This amounts to impose that each firm active in the market should break even. The firm's problem then becomes:

$$\max_{p_i, a_i \geq 0} \ (p_i - c_i(a_i))D_i(\hat{p}) + \alpha_i \mathcal{W}(a, \hat{p}) \tag{6a}$$

$$(\lambda_i) \quad a_i \leq \overline{a_i} \tag{6b}$$

$$(\gamma_i) \quad (p_i - c_i(a_i))D_i(\hat{p}) \geq 0 \tag{6c}$$

With respect to model (2), the main novelty is that we impose a constraint of prof-

[8] On this result, see also Fleurbaey and Ponthière (2023).

[9] Let us also notice that, while the analysis in section 4.3 of Dewatripont and Tirole (2024) is focused on the "UPI (unethical) consumers" case, our own analysis is rather focused on the case of ethical consumers.

itability on the firm. The first-order conditions are:

$$
\begin{aligned}
0 \leq a_i \quad &\perp \quad c_i' D_i - (p_i - c_i)\frac{\partial D_i}{\partial \hat{p}_i}\phi' - \alpha_i W_i' D_i - \alpha_i \phi' \sum_{j=0}^{n} W_j \frac{\partial D_j}{\partial \hat{p}_i} \\
&\qquad + \lambda_i + \gamma_i c_i' D_i - \gamma_i (p_i - c_i)\frac{\partial D_i}{\partial \hat{p}_i}\phi' \geq 0 \\
0 \leq \lambda_i \quad &\perp \quad \overline{a}_i - a_i \geq 0 \\
0 \leq p_i \quad &\perp \quad -D_i - (p_i - c_i)\frac{\partial D_i}{\partial \hat{p}_i} - \alpha_i \sum_{j=0}^{n} W_j \frac{\partial D_j}{\partial \hat{p}_i} - \gamma_i D_i - \gamma_i (p_i - c_i)\frac{\partial D_i}{\partial \hat{p}_i} \geq 0 \\
0 \leq \gamma_i \quad &\perp \quad (p_i - c_i(a_i))D_i(\hat{p}) \geq 0
\end{aligned}
$$

Assuming an interior solution ($p_i > 0$, $0 < a_i < \overline{a}_i$), the system leads to the following proposition, to be contrasted with the irrelevance result (3).

Proposition 2. *Under the augmented model* (6)*, the allocation of a_i by the firms is given by*

$$\frac{\alpha_i W_i'(a_i)}{1+\gamma_i} - \phi'(a_i) = c_i'(a_i) \tag{7}$$

where γ_i denote the shadow value, for firm i, of relaxing the non-negative profit constraint. Whenever the constraint is binding, $1 + \gamma_i = \frac{\eta_i \alpha_i \frac{\partial \mathcal{W}/\partial p_i}{\partial D_i/\partial p_i}}{p_i}$ with elasticity $\eta_i = -\frac{\partial D_i}{\partial p_i}/\frac{D_i}{p_i}$.

If firm i is not constrained by the profitability (for instance when the firm enjoys a large mark-up), $\gamma_i = 0$ and the expression (7) is equivalent to the irrelevance result (3). If firm i has no prosocial preference ($\alpha_i = 0$), the term γ_i vanishes and the chosen a_i is such that the supply of morality ($c_i'(a_i)$) equals consumers' demand for morality ($-\phi'(a_i)$). If the firm has prosocial preferences ($\alpha_i > 0$), and its profitability constraint is tight ($\gamma_i > 0$), the impact of these preferences on the moral choice a_i is discounted by a factor $1 + \gamma_i$. The important fact is that the term γ_i is influenced by the competitive pressure. This can lead to cases in which, as suggested by Baumol, the higher competitive pressure is ($\eta_i \to \infty$), the more the firm is tightened by profitability constraint ($\gamma_i \to \infty$), such that, at the competitive limit, moral preferences expressed by firms do not influence the morality level a_i that is actually implemented, only the consumers' demand does. The following numerical example illustrates this case using Proposition 2.

Example 1. *Let us consider a market with two active firms. The demand faced by each firm is $D_i(\hat{p}) = 1/2 + (\hat{p}_j - \hat{p}_i)/2\tau$ with $\sum_{i=1}^{2} D_i(\hat{p}) = 1$, i.e. the market is covered. The higher the τ, the higher the mark-up of the firms. As $\tau \to 0$, the market tends towards the competitive limit: $\eta_i = p_i/(2\tau D_i) \to \infty$. Let us assume that firm 2 does not hold any moral concern ($\alpha_2 = 0$) while firm 1 is "virtuous" with $\alpha_1 = 1$. Let us further assume the following functional forms: $\phi(a_i) = -\alpha_c a_i$ ($\phi'(a_i) < 0$, i.e. consumers are socially responsible), $c_i(a_i) = \delta a_i^2/2$ and $W_i(a_i) = 2\epsilon\sqrt{a_i}$. Let us choose parameters' value $\alpha_c = \delta = \epsilon = 10$.*

Firm 2 morality choice is $a_2 = \alpha_c/\delta = 1$. The morality of firm 1, when profitability constraint is not tight, is determined by the irrelevance result (3)*, here: $\alpha_1\epsilon/\sqrt{a_1} + \alpha_c = \delta a_1$. When the profitability constraint is tight, it is determined by the equation* (7)*, here: $\frac{\tau D_1}{a_1 - \sqrt{a_1}\sqrt{a_2}} + \alpha_c = \delta a_1$. In the later case, as the competitive*

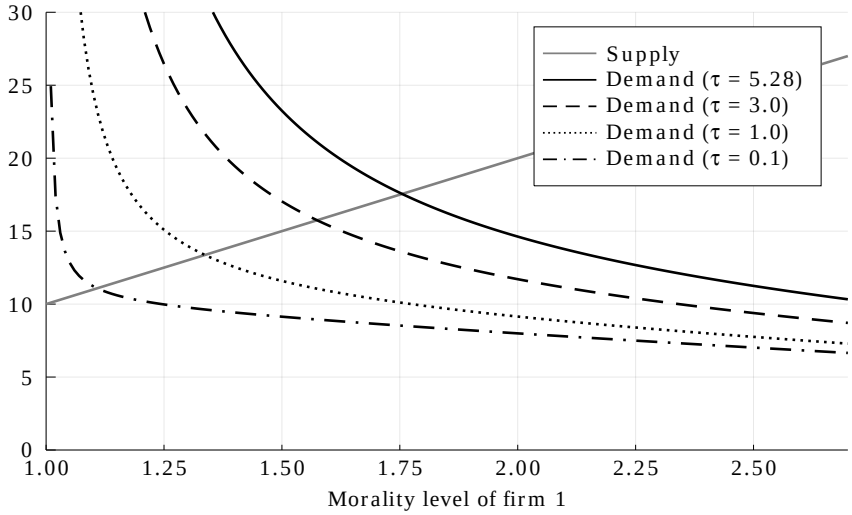

Figure 2: Equilibrium morality choice of firm 1 (a_1) depending on the competitive pressure (τ).

pressure increases ($\tau \to 0$), the firm 1 will cut ethical corners ($a_1 \to a_2$). Solving numerically the problem for firm 1, one obtains the following results. For $\tau \geq 5.28$, the profitability constraint of firm 1 is not tight, and $a_1 = 1.75$ for any $\tau \geq 5.28$, as predicted by the irrelevance result. For $\tau < 5.28$, the profitability constraint of firm 1 is tight and its morality choice is affected by the competition. The supply and demand equilibrium (equation (7)*) is illustrated on Figure 2 for various choices of τ: $a_1 = 1.75$ for $\tau = 5.28$ ($\gamma = 0$), $a_1 = 1.57$ for $\tau = 3$ ($\gamma = 0.39$), $a_1 = 1.34$ for $\tau = 1$ ($\gamma = 1.57$), $a_1 = 1.11$ for $\tau = 0.1$ ($\gamma = 7.76$).*

Proposition 2 and Example 1 point to another direction in which the irrelevance result should be qualified. At the same time, it also reconciliates Dewatripont and Tirole's irrelevance result with previous findings by Baumol (1991) and Shleifer (2004). Competitive pressure is benign for the social production of moral actions insofar as the non-negative profit constraint is not binding, as studied by Dewatripont and Tirole (2024). Otherwise, markets may favor the replacement of highly ethical suppliers by less ethical suppliers, as argued by Baumol (1991).

As far as the moral standing of market is concerned, the noteworthy *paradox*, analysed by Baumol and formalized in Proposition 2 and Example 1, is that the market form that is generally contemplated as ideal for its allocative efficiency—*perfect competition*—leads mechanically to a crowding out of firm's moral values. This highlights the tension, if not the impossibility, that exists in the market between, on the one hand, the achievement of economic efficiency—arguably the strongest normative argument in favor of markets—and, on the other hand, the promotion of "virtuous" activities.

The essential normative question is how one should look at this important tension, formalized by Proposition 2. On that front, the views held by Baumol on the one hand, and by Dewatripont and Tirole on the other hand, are radically opposite. In fact, they embody the two extreme stances on how the moral labor should be divided in society, and what should be the scope of private enterprise. In their

article, Dewatripont and Tirole seem to defend the view that the moral labor should rest entirely on firms, since the State is absent from the article, and since citizens are, in the model, nothing more than consumers of the morality produced by the firms. In this perspective, the tension highlighted by Proposition 2 is arguably problematic.

Baumol holds the exact opposite view, as he argues that "one may well hold that these [moral] decisions [like a_i], so vital to society, should not be left to a subgroup such as company managements, but should be arrived at by the members of society as a whole" (Baumol, 1991, p. 22) According to Baumol, firms can do a great job in optimizing the production of goods and in avoiding any waste in the production process. This is how they are vector of progress. However, hoping for firms to engage into (wasteful) virtuous actions is *unrealistic*—as shown by Proposition 2, the "same competitive process which prevents laziness or incompetence also precludes voluntarism on any significant scale" (Baumol, 1991, p. 53)—but also *undesirable*: it is doubtful that it is good thing to have firms owners and managers (that is, a very specific social class) to decide for the whole society what ethical goals to embrace. "The notion that firms should by themselves pursue the objectives of society is, in fact, a rather frightening proposition" (Baumol, 1991, p. 50). It follows that, according to Baumol, the social objectives should be defined democratically by the State and that a "responsible firm" is not one that engages into virtuous activities. Instead, a responsible firm is one that does not try to undermine, or even to boycott through aggressive lobbying, the regulatory effort made to incentivize socially desirable behavior. A truly responsible firm is one that even takes part, with good will, in the discussion to design these policies.

These two stances are completely different ways of looking at Proposition 2. And the choice between these two normative positions (or any other intermediate position between them) is far from obvious. In the end, judging the normative implications of Proposition 2 eventually requires to properly define value judgements about how the moral labor should be distributed in a society, among citizens, firms and States. This would require some normative postulates that are not explicit in Dewatripont and Tirole (2024). However, although absent in Dewatripont and Tirole (2024), such normative materials are definitely needed in order to assess the normative scope of the crowding out of ethical suppliers, and, *in fine*, to assess the "morality of markets".

4 Concluding remarks

This note reexamined the positive core of Dewatripont and Tirole's irrelevance result, and identified two mechanisms along which the crowding out of moral values takes place on markets. A first crowding out of moral values occurs through the imperfect transmission of consumers' moral values on the market. Imperfect transmission of moral values on markets leads to an underproduction of moral actions despite the presence of highly ethical suppliers, and despite the irrelevance of competitive pressure. A second mechanism of crowding out of moral values occurs through the replacement, on the market, of highly ethical suppliers by less ethical suppliers when the profitability constraint is binding.

Are these results depressing? Not necessarily, depending on postulates—to be made explicit—concerning the *fair social division of moral labor*. On the one hand, our results are depressing if one believes that the burden of moral actions should rely

exclusively on the shoulders of firms, as assumed in Dewatripont and Tirole (2024). Under that view, one needs markets to be "moral", since there is, by assumption, no other social institutions on which one could rely for the expression of moral concerns and for the coordination of moral actions. On the other hand, our results are not depressing if one believes in a more balanced social division of moral labor, in which the burden of moral actions would not rely exclusively on firms, but would be divided between firms, States, citizens and other organizations such as NGOs. Under that alternative view, the playing field for the coordination of moral actions would go beyond the mere market place, to include also deliberative institutions. But in any case, the definition of the fair social division of moral labor must be addressed by means of appropriate theoretical tools and concepts, which remain to be constructed.

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