

# The Market Experience: The Worst System Except for All the Others?

Robert E. Lane

*The Market Experience*

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There have been many critiques of capitalism but few are as fair-minded and none are as psychologically well-informed as the critique Robert E. Lane advances in this book. Lane cedes a lot of ground to neoclassical economics; indeed, from a neoclassical perspective, he cedes almost everything when he acknowledges the tremendous superiority of the market over central planning as an efficient means of generating wealth. Lane agrees with those who maintain that the pivotal ideological debate of the 20th century—the market versus the state

as the superior engine of economic progress—has been decisively resolved in favor of the market. The end of one debate has, however, simply set the stage for a new one that will dominate the 21st century—a debate that focuses not on economic efficiency but rather on the relative efficacy of institutional arrangements in promoting what Lane views as the two ultimate goals of public policy: human happiness and personality development (which he defines as a composite of cognitive complexity, autonomy, and self-esteem).

In assessing the impact of the market on subjective well-being and human development, one might draw on a variety of research methods. The preferred method among political conservatives is to compare human experiences in market and command economies. These comparisons might be cross-sectional (for example, West Germans versus East Germans, North Koreans versus South Koreans, Estonians versus Finns) or longitudinal (before versus after the introduction of a command or market economy). Lane points to the methodological problems of such comparisons and avoids them. The problems are no greater, however, than those of methods that Lane does use. Moreover, this methodological decision shapes the normative thrust of the argument Lane develops. He compares the market not to its actual competitors but rather to the vague and abstract ideal of maximizing happiness and realizing developmental potential. Markets can have some nasty psychological side effects, but so too do command economies, compromise mixed economies, and welfare-state liberalism. It is reasonable to ask (and Lane does not): Are statist and communitarian cures worse than the market disease?

Lane adopts a different methodological strategy. He tries to infer the causal role of market forces from an intellectually rich combination of psychological theory and experimentation, survey evidence, and analogical arguments. The display of scholarship is quite stunning. Lane draws skillfully on vast areas of psychology (clinical, cognitive, developmental, personality, and social), sociology, political philosophy, and microeconomics.

It is helpful in this sprawling treatise to keep in mind what the independent and dependent variables are. Let us start with the multidimensional independent variable: the market. Following Samuelson, Lane defines the market as the process by which buyers and sellers of goods and services interact to determine both price and quantity. As such, the market provides an institutional mechanism for answering three critical societal questions: (a) what goods shall be produced? (b) how shall these goods be produced? and (c) for whom shall the goods be produced? Of course, the "marketization" of a society is not a dichotomous variable; rather, it is a continuum. Societies are more marketized to the degree that (a) exchanges of goods and services for money are widespread; (b) the market provides ready access to information that permits people to calculate their next

moves in response to price and quantity information; (c) the criterion for success is wealth; (d) there is a sharp separation of political and economic authority (and the government interferes only to control externalities and to provide basic public goods). In the ideal market system, social order emerges as an incidental by-product of independent actors trying to maximize their welfare in response to environmental feedback concerning price, demand, and supply. From a social psychological point of view, two properties of markets are especially critical. First, markets are consumer driven. The principle of consumer sovereignty dictates that the ultimate criterion for decisions by firms is whether acts will yield a profit in meeting demand, not whether they provide work or enrich jobs. Second, managers and owners of firms must pay homage to the efficiency norm of maximizing return on investment.

Lane is, of course, far from the first to examine the impact of markets on human happiness and personality. For centuries, free market enthusiasts have been proclaiming the character-building virtues of capitalism, including planning and foresight, hard work, prudence, creativity, courage, honesty, and commitment. For almost as long, critics of capitalism have been compiling an equally long list of debilitating consequences, including anomie and alienation, superficial materialism, greed, and a calculating, manipulative stance toward other people. On this continuum of opinion, Lane falls somewhere near the middle. On the one hand, Lane acknowledges the efficiency of market mechanisms in generating wealth and economic growth that, in turn, improve the health and education of the population, enhance skills in problem solving and moral reasoning, and foster more democratic and tolerant societies. Lane also applauds the beneficial consequences of learning to think in monetary terms. Money schemata conserve cognitive capacities, facilitate comparisons, assist in rationing time and calculating future possibilities, and encourage abstract thinking and awareness of opportunity costs. In characteristically integratively complex fashion, however, Lane also sees the downside of monetary thinking: It encourages indiscriminate assessments, inappropriate classifications, and reduces people and ethics to a financial yardstick that "leaves the mind wounded" (p. 95).

Lane's assessment is moderate, nuanced, and multifaceted. He does not buy into the sweeping indictment of the mar-

ket advanced by humanist and socialist critics but clearly distances himself from laissez-faire ideologues. Lane's core complaint about the market reduces to this: Driven by competitive market forces and demands for profit maximization from shareholders, firms seek to increase their efficiency by favoring customers who provide them with revenue and placing lower priority on the workers whose wages constitute costs. The efficiency norm puts constant pressure on managers to pare down expenditures that do not increase profits. Accordingly, firms reject programs to improve the quality of work experience unless those programs demonstrably increase efficiency. In Lane's view, the result is that most people engage in

nonself-directive work that fails to develop cognitive complexity and a sense of personal competence, intellectually demanding uses of leisure time, liberal democratic ideology (as contrasted to authoritarian conservatism), moral responsibility, receptivity to change, self-confidence, self-esteem, and protections against anxiety. (p. 421)

Lane draws on intrinsic motivation research to argue that there is often a steep psychological price for the primacy of consumer over worker. His argument, however, contains many twists and turns. He begins by noting the corrosive implications for market economics of an incentive system that not only denies the value of pay but claims that it reduces motivation. The work of Lepper and others serves as a useful caution against the glib assumptions of the pay maximization hypothesis. But Lane warns against exaggerating the threat posed by the intrinsic motivation argument to the market. Research suggests that when people interpret pay as informative feedback rather than control, pay ceases to undermine intrinsic motivation. Lane also notes the countervailing effects of additional motives such as desire for excellence and equity restoration. At this point in Lane's argument, one is entitled to ask whether we should leave well enough alone. We have achieved enormous social and economic progress over the last century by relying solely on pay to motivate and allocate human resources, without worrying about the private, difficult-to-assess concept of intrinsic motivation. Why not let people make whatever tradeoffs they deem reasonable between intrinsic and extrinsic rewards in choosing jobs within a competitive labor market?

Lane offers a powerful, but not entirely convincing, counterargument. He re-

views evidence that people who are intrinsically motivated and rewarded at work live longer, learn more, and are more creative and happier than those who are mostly motivated by pay. He also asserts that motives to achieve wealth are not, by themselves, most effective in prompting creative and productive effort. "That kind of effort comes from people who are intrinsically motivated by a desire for excellence or who are sufficiently self-directed to make their work, not the pay, the focus of their attention" (p. 421). If free market advocates are really serious about maximizing wealth, they had better not ignore intrinsic motivation.

Lane's argument leads, however, to a paradox. If intrinsic motivation is as important as Lane asserts, why shouldn't people as they become increasingly wealthy (and can satisfy their lower Maslowian needs) choose to work for firms that challenge them to grow intellectually, to develop an internal locus of control, to gain intrinsic satisfaction from their work, and to respect themselves? In a similar vein, if intrinsic motivation is as important as Lane asserts to peak creative performance, we should expect firms to learn to catalyze the creative energies of their employees, thereby gaining critical market share. Here, it is odd that Lane does not cite the tens of thousands of pages that have been written in the popular press on management and organizational behavior offering advice to employers on how to empower their employees and stimulate creativity, initiative, and the pursuit of excellence. The irony may be that as market economies reach a certain level of affluence and technological maturity, market participants become persuaded that Lane is right and take self-corrective action.

This argument brings us to a startling conclusion. It is possible to accept Lane's lengthy analysis of the psychological shortcomings of capitalism—to agree that work is often unfulfilling, that some people overgeneralize monetary metrics, and that beyond a decent minimum, wealth is unrelated to quality of life or happiness—but simultaneously disagree with Lane that we should do something about it. In this view, Lane is probably wise to refrain from drawing strong policy implications from his analysis. Instead, he closes with a question. He wants to know what might lead a society to devise and sustain institutions that fail to foster "as well as they might" (p. 611) the happiness and personality development of its members. One possibility is that people simply do not know what makes them

happy. Here the solution is education. A second explanation for dysfunctional social practices is that, although the majority may suffer, the practices serve the interests of a dominant elite. Marxists have advanced this explanation for the persistence of market economies for well over a century now. The remedy here is to shift the domestic political balance of power. A third possibility is that every society must to some degree be dysfunctional because every society must choose which few of the many possible human values to emphasize for legitimate expression. The prosperity and relative freedom of capitalism carry a price (which Lane ably documents) but other social arrangements also carry large price tags. Societies that stress religious piety or egalitarian collectivism often suppress liberty and stifle economic and technological progress. For every value one chooses, there are inevitably opportunity costs. It is very much a debatable proposition that Lane's "two maximands" (p. 9) would be well served if the U.S. government suddenly expanded the mandate of the Occupational Safety and Health Administration to include requirements that employers empower employees and encourage intrinsic motivation. Would the world be a better place? Or would we simply have added new layers of government bureaucracy, imposed new burdens on employers, increased unemployment, reduced our international competitiveness, and stimulated new complex cycles of litigation?

It is misleading to think of societies self-consciously choosing to emphasize some values and to de-emphasize others. The directions societies take are the product of complex interactions among many interest groups. It is even more misleading to think of societies making these choices in a vacuum. Societies exist in a competitive nation-state system in which power hinges critically on economic and technological success. Nations that do not produce goods and services that others want will soon experience painful declines in standard of living. They may even lose the ability to preserve their sovereignty or defend themselves from aggressors. One cannot choose a political-economic regime purely on the basis of how effectively that regime promotes happiness and personality development. Economic efficiency and national security are also legitimate goals. And one should not evaluate political regimes against impossibly idealistic standards. Lane believes that current capitalist societies do not foster "as well

as they might" the happiness and personality development of their members. It is curious, however, that he does not subject alternative political-economic arrangements to the same demanding tests. These considerations lead me to

paraphrase Winston Churchill's question about democracy: Is free market capitalism the worst system except for all the others that have been tried from time to time and been found wanting? ■