Preface to the Revised Edition

This book explores how moral factors exert influence on the economy.


Four reasons account for the choice of the title—*Beyond Market and Government.* Firstly, as the book says, in the long period before the emergence and establishment of market and government, custom and morality were the only modes of regulation. This is not only true of remote antiquity; even in modern times, there have been isolated tribes, remote mountain villages, small islands, or migrant communities cultivating virgin land, where the only things working to regulate social and economic activities are custom and morality—not market or government. Therefore, we are justified in calling custom and morality a kind of regulation beyond market and government.

Secondly, in places where regulation by market or government does work, there are still some gaps that the two modes of regulation cannot reach owing to the limitations of their influence. Each does compensate for the other’s limitations, but only up to a point. For example, human beings as “social men” do not necessarily think or act only for economic benefit, nor will they always be passively subject to regulation by the government. The gap can only be filled by custom and morality. In this sense, regulation by custom and morality can be viewed as a regulatory mode beyond market and government.
Thirdly, social life includes a wide range of activities, one part of which is trading activity and another is non-trading activity. In the former, the market plays the role of regulator at the basic level and the government at a higher level. But the same cannot be said of non-trading activity, which is not restricted by market rules and mechanisms nor is subject to government intervention. The government is only responsible for defining its scope and ensuring that such activity does not overstep the boundary. Thus, non-trading activity has to be regulated by factors beyond market and government, namely, moral force.

Fourthly, once markets and governments do emerge, a variety of causes can give rise to market failure or government paralysis, rendering regulation by market or government ineffective or extremely limited. But even in such circumstances, custom and morality still exist and continue working as normal. This is another reason that custom and morality can be regarded as a mode of regulation beyond market and government.

For the above reasons, this book is titled *Beyond Market and Government*. It must be explained that regulation by custom and morality lies between regulation by market and regulation by government. Regulation by market is called the “invisible hand” and regulation by government the “visible hand.” Regulation by custom and morality is closer to the “visible hand” when its power to restrict is relatively strong and closer to the “invisible hand” when it is weaker.

But when is such power stronger or weaker? There are two main deciding factors. One factor is whether or not regulation by custom and morality has become a convention or a rule universally accepted by all members of the group. If so, its restricting power will be stronger; if not, it will be weaker. For example, a village rule is an agreement among all villagers, and they are obliged to follow it. In this situation, the restricting power of regulation by custom and morality embodied in the village rule is stronger. The second factor is the degree to which each member identifies with the group. If the degree is high, the restricting power is stronger; if not, it will be weaker. For example, if the villagers have a high degree of self-identification with their group, they will be more self-disciplined in following the village rules. That is to say, the rules will have more restricting power on the villagers.

Of course, in some situations, the restricting power of regulation by custom and morality is relatively weak, but this does not imply that it has no effect at all. Moreover, stronger does not always mean better where such power is concerned, since regulation by custom and morality takes many different forms. The above-mentioned village rules generally have stronger restricting power, whereas some regulation by custom and morality formed through self-discipline, despite involving no restricting power, can often play a role and influence individual behaviors.

In terms of social development trends, we note a continual increase in non-trading activities, in which regulation by custom and morality plays a major part. In the past when productivity was very low, trading activities barely existed, whereas non-trading activities covered almost all social and economic life. Later, with the increase in productivity, the traded sector gradually increased and expanded and the non-traded sector shrank correspondingly. When productivity increases to a higher
level, the share of the non-traded sector in socioeconomic life would gradually rise again. In other words, once the economy is highly developed, with income per capita increasing greatly, people’s values and attitudes will change accordingly, as regards benefits, occupation, lifestyle and life itself, family and children, interpersonal relations, material wealth, spiritual enjoyment, etc. When national revenue and disposable personal income rise to a certain level, non-trading activities will increase and relations within the non-traded sector will develop at different levels. This is an inevitable trend of social and economic development. Consequently, as the major mode of regulation in the non-traded sector, regulation by custom and morality will play an ever more important role in social and economic life. In the past, regulation by morality has been an issue of interest to and exploration by specialists in philosophy, economics, and sociology, but I hope in the future more non-professionals will join us and think earnestly how regulation by morality plays a role beyond market and government.

This book devotes seven chapters to the role of moral factors on the economy. At present, discussion on this topic in academic circles is far from enough, as is our awareness of its importance in social and economic life (including the traded and non-traded sectors). That said, I believe this situation will change in the future. More people will join us in this study, and the role of regulation by custom and morality will be fully deployed. In this sense, my effort in writing this book will be worthwhile.

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