Arrow's point is that social norms and moral codes can attenuate market failures when they have the effect of internalizing the benefits and costs that an individual's actions confer or inflict on others[1]

[1] Samuel Bowles, *The Moral Economy: Why Good Incentives Are No Substitute for Good Citizens*, The Castle Lectures in Ethics, Politics, and Economics (New Haven ; London: Yale University Press, 2016), 3.