

Freedom and Markets: A Misconception

1. The Market as an expression and as the epitome of “freedom”?

“The political principle that underlies the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate.” *Milton Friedman (1970)*

“Ordinary [market] exchanges ... are essentially voluntary because participants are free to withdraw from or to refrain from entering the association.” *James M. Buchanan (1986: 230 f.)*

“Economic freedom ... is the prerequisite of any other freedom... The freedom of economic activity [includes] ... the right of choice [and] inevitably also carries the risk and the responsibility of that right.” *Friedrich August von Hayek: The Reader’s Digest condensed version of The Road to Serfdom (1945)*

- The “free” market is the epitome of freedom.
- Any attempt to restrain markets is a loss of freedom.
 - Unless this restraint is somehow a necessary precondition to “free trade”.
 - Or unless the political process can be seen as “fully analogous to the market” (*Buchanan 1986: 90*).

2. Indications of some loss in freedom given with the market

1.1. Loss in political freedom

“The European Union is confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy. These changes are affecting every aspect of people’s lives and require a radical transformation of the European economy... The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world...” *The EU Lisbon Strategy (2000)*

“Our job is to do everything we can to ensure that businesses can take root and folks can find good jobs and America is leading the global competition.” *Barak Obama (2011)*

“Firms must decide to locate in Germany and not elsewhere. Only then will we be able to say that our policies benefit the people.” *Angela Merkel (2000)*

→ The world in state of an economic war?

Interviewer: „The struggle over presidency is in full swing. What is the prior task for the soon to be elected president of the US?”

Greenspan: „We are lucky that the political decisions in the US, thanks to globalization, have been widely replaced by global market forces. With the exception of national security, it does not matter that much who will be the next president. The world is governed by market forces.”

Alan Greenspan (2007)

“In today’s hyper-competitive global economy, there is no reliable ‘third way’ for countries to avoid continued liberalization and market-oriented reforms.” *Kenneth Rogoff (2006)*

It is a “fact” and an “inconvenient truth” that “an improvement on the labour market will only be made possible by lower wages to those who anyhow are among the low-wage earners.”

Hamburger Appell (2005)

„The indignation on the laws of capitalism is pointless. Even if this indignation would relate to the laws of gravitation, god would not give a damn.” Those who think that „everybody should live on the labour of their own hands confuse wishing and reality.” *Hans-Werner Sinn (2005, 2008)*

1.2. Loss in moral freedom

“Under perfect competition ..., morality [in certain respects] ... is removed almost entirely from the discretion of the business decision makers... Perfection in competition ... precludes all genuine business voluntarism, including care for the environment beyond that imposed by law.”
Baumol (1991: 3)

1.3. Loss in personal freedom

“Competition cuts prices, enforces innovation, augments investments, and thus advances growth – everybody, thus, should be in favour of competition.” *NZZ (2002)*

It is “competition“ which „subjects the individual to the control of the market, largely disempowers him, forces him to increase his performance, and coerces him to constantly adapt to changing circumstances.” *Walter Eucken (1990: 237)*

“The fact that competition not only shows how things can be improved, but also forces all those whose income depends on the market to imitate the improvements, is of course one of the major reasons for the disinclination to compete.” *Hayek (1968)*

“The capitalistic economy of the present day is an immense cosmos into which the individual is born, and which presents itself to him, at least as an individual, as an unalterable order of things in which he must live. It forces the individual, in so far as he is involved in the system of market relationships, to conform to capitalistic rules of action. The manufacturer who in the long run acts counter to these norms, will just as inevitably be eliminated from the economic scene as the worker who cannot or will not adapt himself to them will be thrown into the streets without a job.” *Max Weber (1905)*

“The increasing significance of freedom of contract and, particularly, of enabling laws which leave everything to ‘free’ agreement, implies a relative reduction of that kind of coercion which results from the threat of mandatory and prohibitory norms. Formally it represents, of course, a decrease of coercion. But obvious this is only a decrease of coercion to those who are economically in the position to make use of the empowerments. The exact extent to which the total amount of ‘freedom’ within a given legal community is actually increased depends entirely upon the con-

create economic order and especially upon the property distribution. In no case can it be simply deduced from the content of the law." *Max Weber (1920)*

3. The ethical ambiguity of the call for “freedom”

1. Freedom on the side of the rights holder – freedom as a right:
Freedom of the “victims”, of those being treated, disregarded, neglected.
2. Freedom on the side of the “doer”, the actor, the “committer”, the more powerful:
Being “free” from all (or certain) duties

Market freedom = freedom to buy or sell – if one has the power to do so.

Market freedom = the permission to make use of one’s market power (purchasing power or productivity) in all matters

Should market freedom be regarded as absolute, unrestrained?

What kind of rights/duties there are?

When we talk about “freedom” we necessarily address both sides, rights and duties, but we usually do not specify, though we needed to.

There is only one unequivocally valid dimension of freedom, freedom as moral autonomy (as opposed to arbitrary freedom):

“Nothing is required for this enlightenment, however, except freedom; and the freedom in question is the least harmful of all, namely, the freedom to use reason publicly in all matters.”

Kant: An Answer to the Question: What is Enlightenment? (1784)

4. Dimensions of justice: Negative justice, positive justice, and fairness

‘The limits of freedom are the freedoms of others.’

1. Negative Justice (negative liberty)

Duty of non-interference: non-violence, “peace”, no “external effects” → “duties owed to others”, “perfect duties” [“non-dispensable duties”] (*Kant*)

2. Positive Justice (positive liberty)

Duty to act: (pure) solidarity, charity → “duties of love [i.e. beneficence] to others”, “imperfect duties” [“commendable duties”] (*Kant*)

3. Fairness (positive liberty)

How is the value, created in a joint achievement (division of labour), and how are the burdens in this process, distributed fairly among all contributors? → Distributive justice (not: re-distribution)

5. Market freedom as the epitome of freedom comes down to rejecting positive justice and fairness in particular

Freedom is “freedom from coercion, from the arbitrary power of other men”.

Friedrich August von Hayek: The Reader's Digest condensed version of The Road to Serfdom (1954)

→ The power of the employer to dismiss, to lower wages, to intensify the workload, is no “arbitrary power”.

“The rules of justice have essentially the nature of prohibitions; ... the injustice to be prevented is the infringement of the protected domain of one's fellow men; ... these rules of just conduct ... are in themselves negative... Free men who are to be allowed to use their own means and their own knowledge for their own purposes must therefore not be subject to rules which tell them what they must do... The so called ‘social’ or ‘distributive’ justice ... [destroys] the liberal order of law progressively...” *Hayek (1996: 166 f.)*

→ We are “free” (are permitted) to disregard all considerations other than our economic self-interest (highest gains, lowest costs) – as long as we abstain from bashing our fellows heads.

What is advancing one's economic self-interest, and nothing but this, e.g., profit maximization?

→ Eliminating all non-market values which up until now “embedded” (Karl Polanyi) the market transactions and interrelations into societal values of meaning and fairness.

„Any employee can begin to improve the quality, productivity and efficiency with their area of responsibility, if they can properly identify and eliminate non-value adding and wasteful activities in their daily work process.” *Email of a Swiss Bank to its employees*

"Value creation should be established as the paramount objective of all management endeavours. There still are huge potentials for setting radical cuts in an unprejudiced manner." *McKinsey (2001)*

"We see our strength in detecting solid companies which are, as such, run well, but whose owners do not do enough to unlock its full potential. Such a company sometimes needs to go through a process of radical transformation. If the plan succeeds, substantial value added can be achieved." *Pinkerton/Cinven: „Private equity ist effizienter als der öffentliche Aktienmarkt“, Finanz und Wirtschaft, 5. Mai 2004, S. 23.*

6. Competition as “creative destruction”

How is it possible (enforceable) to alter the terms of trade (e.g. cost cutting) to one’s own favour? → One needs to refer to other exchange partners.

The competitive market is a “process of creative destruction” (Schumpeter).

“Creation” = exchange = win-win

“Destruction” = competition = win-win-loose

It is not possible to create a new income stream (“jobs”) without destroying the income stream of another market participant.

The creation of jobs necessarily leads to the destruction of jobs somewhere else in the (world) market.

Competition creates winners as well as losers.

direct destruction: cost savings

indirect destruction: increase in sales

Not till those whose jobs are destroyed manage to find a new job there is growth.

“Economic progress has two legs. One is eliminating jobs with new technologies, the other finding new tasks for workers... Both job creation and destruction go hand-in-hand.”

There are “unrecognized advantages of job destruction... We would better measure economic success by the elimination of jobs than by their creation... The future of the economy rests on the country’s willingness to endure the pain of job destructions, as well as find ways to facilitate job creations...” *McKenzie, R.B.: The American Job Machine, New York 1988, p. 9.*

7. The compulsion into entrepreneurship

“People say that in the competitive struggle, economic lives are destroyed. This, however, merely means that those who succumb are forced to seek in the structure of the social division of labour a position other than the one they would like to occupy. It does not by any means signify that they are to starve.” *Mises (1981: 285)*

„Competition is, after all, always a process in which a small number of people forces a larger group of people to do what they do not like, be it to work harder, to change habits, or to devote a degree of attention, continuous application, or regularity to their work which without competi-

tion would not be needed.“ *Hayek, F.A. von: Law, Legislation, Liberty, Vol. 3, 1979, p. 77 (German: p. 110)*

Entrepreneurship = the willingness to compete, to exclude all other considerations (or values) other than profitability (like fairness, meaning, ...) from the market.

8. The impersonality of market's forces

“Competition produces ... a kind of impersonal compulsion which makes it necessary for numerous individuals to adjust their way of life.” *Hayek (1978: 189)*

“The growing impersonality of the economy on the basis of association in the market place follows its own rules, disobedience to which entails economic failure and, in the long run, economic ruin.” *Weber (1978, p. 585)*

The market nexus is a “masterless slavery”. *Weber (1978: 1186)*

“The ‘hiding hand’ of the market, which prevents you from knowing who and presumably what caused your loss of a job in your factory, tends to diffuse the resentment (against free trade, A.d.V.), I think.” *Bhagwati (1996b: 33)*

“The obvious and simple system of natural liberty”, i.e., the market in its pure form, “establishes itself of its own accord” when “all systems either of preference [for the well-being of others] or of restraint [of ‘free’ exchange] ... being thus completely [!] taken away.” *Adam Smith*

→ Responsibility comes down to self-responsibility.

9. The loss in personal and political freedom – explained

Competition is coercion (without physical interference), it is, in the end, the compulsion to live an ever more “entrepreneurial” life, a life in conformity with market values.

Economization (marketization) = actively eliminating all outer-market considerations and values.

For those, who do not want, or just partly want, to live a life in the constant and ever more demanding adaptation to the “impersonal and unthinking forces of the market“ (Baumol 1991: 13) this is a loss in personal freedom, of “real freedom“ (van Parijs).

Freedom *within* the market (market freedom) vs. freedom *from* the market → Finding the right balance.

Two basic ethical questions:

- Is it still worthwhile to endure the stress of staying competitive? (teleological ethics)
- Are those who intensively want to live a competitive life – and is capital – permitted to force all others via „invisible“ market forces to live an ever more competitive (or entrepreneurial) life? (deontological ethics)

But this loss of freedom cannot be coped with individually, but only politically.

What is political freedom (“Volkssouveränität”)?

“A society is well-ordered when it is not only designed to advance the good of its members but when it is also effectively regulated by a public conception of justice.” *Rawls (1971: 4)*

But obviously, political freedom has been lost. The paramount political issue is no longer: how do we want to live, what is a good life, and what do we regard as a just society? Rather it is: How to keep or strengthen our competitiveness?

„The loss of sovereignty by governments to capital markets is a new paradigm that will reward governments with good policies and punish those with bad ones.“ *Tim McNamara, Deputy Secretary U.S. Treasury Department, 1981-85, in: Time Magazine, 1999*

Market forces need to be constrained where their ultimate power rests – the power of playing off market participants, and whole countries, against each other in one’s own favour: The global market, global competition.

Otherwise we all will become the prisoners of market’s forces.

“We are ... not only the creatures but the captives of progress; even if we wished to, we could not sit back and enjoy at leisure what we have achieved... At some future date when, after a long period of world-wide advance in material standards, ... we may again have it in our power to choose whether or not we want to go ahead at such a rate.” *Hayek, Constitution of Liberty, p. 53.*

“We want that the world lives in a humane [an embedded, a moderated, well tempered, fair or “social”] market economy... Therefore, the world needs a world economic order.”
Angela Merkel, 2008; www.stuttgart08.cdu.de/wp-content/uploads/2008/12/081201-rede-merkel-stbericht.pdf

We need to „shape globalization humanely“. (*Angela Merkel, Franz-Josef Radermacher*)