

## Chapter 3

# The Moral Case for Economic Liberty

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**R**eaders of the *Index of Economic Freedom* are familiar with the political and material case for economic liberty. There is a robust positive correlation between the protection of economic freedom and the achievement of such important goals as material prosperity and political liberty. As the authors of the 2013 *Index* summarized that year’s findings, “Countries with higher levels of economic freedom substantially outperform others in economic growth, per capita incomes, health care, education, protection of the environment, and reduction of poverty....”<sup>1</sup> This can be called the institutional case for economic freedom.

However, if we believe it is important that people everywhere enjoy goods such as decent health care, a clean environment, and rising per capita wages, then, in drawing attention to the link between economic freedom and the production of these political and material values—that is, in making the institutional case for economic liberty—we are, *ipso facto*, also making a moral case for economic freedom. We should defend economic liberty not only because such liberties have a proven record of securing political and material benefits, vitally important as those

goods may be. By protecting economic liberty, there is also a sense in which we respect other people as our moral equals. In particular, when we insist that governments protect private economic liberty, we insist that those governments respect their citizens as responsible authors of their own lives.

When people are free, they think of themselves as in some sense the central causes of the particular lives they are leading. It is not just captains of industry or heroes of Ayn Rand novels who define themselves through their accomplishments in the economic realm. Many ordinary people—middle-class parents, single mothers, entry-level workers, small-scale entrepreneurs in the developing world—become who they are and express who they hope to be by the personal choices they make regarding work, saving, and spending. These are areas in which people earn esteem from others and feel a proper pride for things they themselves do.

To fully understand the moral importance of economic liberty, we may need to widen the lens through which we view the world. In economic affairs, after all, it is not only the outcome that matters: The process must be considered

too. Possessing some particular bundle of material goods, from this perspective, becomes more meaningful if one possesses that bundle because of one's own actions and choices. Diminishing personal agency in economic affairs—no matter how lofty the social goal—may drain vital blood from a person's life. When private economic freedoms are curtailed, people become in some important sense less free.

## MAKING THE PERSONAL CASE FOR ECONOMIC LIBERTY

None of this is to diminish the importance of the institutional case for economic freedom: Economic liberties are linked to other basic rights and liberties, promote the creation of social wealth, reduce government corruption, and mitigate the dangers of concentrated political power. But in addition to this, individuals everywhere have a moral right to be respected as causes—or, as I prefer, as responsible authors—of their own lives. Thus, the personal case for private economic liberty is worth making too.

The *Index of Economic Freedom* sets out and measures 10 separate areas of economic freedom, a comprehensive scheme that attends to important institutional dimensions of economic liberty. To make the personal case for economic liberty, we need to cut up the conceptual space a bit differently by focusing on the first-person aspects of economic freedom.

James Nickel, a prominent philosopher of human rights, distinguishes four (partially overlapping) categories of economic liberty, all of which protect autonomy of action in economic affairs. Nickel's four categories are liberties of labor, transacting, holding, and using.<sup>2</sup>

- Regarding the economic liberty of labor, Nickel says: "This is the liberty to employ one's body and time in productive activity that one has chosen or accepted, and under arrangements that one has chosen or accepted."
- The liberty of transacting allows individuals to engage in free economic activity. "This is the freedom to manage one's economic affairs at the individual and household levels and on larger scales as well." Transacting involves the

liberty to trade in the marketplace, to create things for sale, and to save and invest. It also covers the freedom of individuals and groups to start, run, and close down businesses such as factories, shops, farms, and commercial enterprises of many sorts.

- The economic liberty of holding concerns freedom in the realm of private property. "This category covers legitimate ways of acquiring and holding productive property, using and developing property for commercial and productive purposes, and property transactions such as investing, buying, selling, trading and giving."
- Finally, there is a range of liberties concerning using. "This is the liberty to make use of legitimately acquired resources for consumption and production." The liberty of using protects the freedom of citizens to buy, use, and consume natural resources, consumer goods, and services. On the commercial level, this liberty protects production-related consumption (such as deciding which parts to use or which power sources to purchase). On the domestic level, it protects a range of personal economic decision making, including questions about what to eat and drink, what to wear, what type of housing to have, and a wide range of services one might choose to purchase.

To simplify, I will refer to these first-person economic liberties as the liberties of working and owning.

Most legal systems include some degree of protection for each of these categories of economic liberty. However, systems differ dramatically in the way they specify the activities that are to be protected in each category. Significantly, systems also differ with respect to the degree of importance they assign to such protections when they conflict with other social goals and values.<sup>3</sup>

## THE CLASSICAL LIBERAL FRAMEWORK

I will be setting out the personal case for economic liberty within a classical liberal framework. This is the framework pioneered by radical

English thinkers such as John Lilburne and John Locke, developed in the American context by Founders such as James Madison, and defended in our day by legal scholars such as Richard Epstein.

Classical liberals affirm what we might call a thick conception of economic liberty. They tend to interpret each category of private economic liberty as having a wide scope. Regarding the liberties of holding (or “owning”), for example, classical liberals affirm not only the right to ownership of personal property (as guaranteed even by most socialist systems), but rights to the private ownership of productive property as well. People should be free to start small businesses, to join in large capital ventures with others, and generally to establish economic entities of a great variety of kinds (including, if they wish, worker-directed cooperatives).

Closely connected, classical liberals typically interpret the economic liberty of labor to include a wide freedom of individuals to negotiate personally the terms of their employment (including both wage rates and number of hours to be worked). Classical liberals interpret the economic liberty of transacting to include the right of individuals to decide for themselves how much to save for retirement, to decide how much to invest in health care, and to make decisions about many other issues of long-term financial planning.

Further, classical liberals see these wide-ranging economic liberties as being especially weighty compared to other social values. They see economic liberties as having a political status comparable to that of the other traditional liberal rights and liberties, such as liberties of speech and association. But classical liberals do not treat economic liberties as moral absolutes or as in any way more basic than the other fundamental rights and liberties. While important, such liberties do not trump every other social concern.

This last feature distinguishes classical liberalism from a closely related but importantly distinct tradition that we might call libertarianism. By libertarians, I am thinking of historical figures such as Lysander Spooner and more

recent writers such as Murray Rothbard, Robert Nozick, and Ayn Rand.<sup>4</sup> Classical liberals and libertarians share an appreciation for the great institutional and personal importance of private economic liberty, but while classical liberals see economic liberties as being among the weightiest rights, libertarians tend to see property rights as the weightiest rights of all and even as moral absolutes.

Thus, unlike the libertarians, classical liberals accept that even the weightiest economic liberties can sometimes be curtailed or regulated to preserve other foundational liberties and sometimes to allow the pursuit of other important social purposes as well. For example, classical liberals would not think the state should enforce contracts that alienate citizens from their other basic rights and liberties (for example, an economic contract that required a person to engage in some form of religious devotion or to enter into slavery). Second, classical liberals traditionally grant that governments have some (albeit carefully limited) powers of eminent domain. They also recognize that governments have the power to act to maintain free and competitive markets (for example, by regulating or breaking up monopolies of scarce resources or by forbidding various forms of collusion and price fixing).

My thesis is that liberties of working and owning, interpreted within a wider classical liberal framework, have great personal moral value. While this might not surprise regular readers of the *Index of Economic Freedom*, it is of the utmost importance to understand how controversial this idea is and that it is controversial not just within moribund pockets of Marxists and socialists, but also across wide swaths of people living in (and voting in) the contemporary liberal democracies of the West.

Far from being a lofty ideal, the idea of living in a world in which there exist big and growing businesses, where workers typically negotiate the terms of their own employment, and where individuals are largely responsible for saving for their own retirement or for making their own arrangements for medical care is seen by many people as living in a world of injustice, exploitation, and vulnerability that can be corrected only

by an extensive system of governmental regulations and the erection of expansive tax-funded social service programs. Thus, many people reject the personal case for economic liberty.

Further, many of our fellow citizens also reject the personal case for economic liberty on what they believe to be moral grounds. If a world of personal economic liberty is said to be unjust and exploitative, then many people will rally against those liberties when they hear the moral call. To understand this perspective and how powerfully it shapes the view of many people within Western democracies, it is important to examine its historical roots.

### **CRITICS OF ECONOMIC LIBERTY: MILL, KEYNES, AND RAWLS**

John Stuart Mill, writing in the mid-1800s, was one of the first thinkers in the liberal tradition to raise doubts about the moral importance of economic liberty. Earlier classical liberals, such as James Madison and Benjamin Constant, had seen economic liberty as fully on a par with the civil and political rights of individuals: the right to a fair trial, freedom of expression, political participation, personal autonomy, and so on. But when Mill surveyed the traditional list of liberal liberties, he singled out the economic liberties for relegation to a distinctly secondary place.

Mill's official argument for treating the economic liberties in this exceptional way is based on his distinction between two spheres of human activity. In the sphere of liberty are activities that primarily concern only the individual or, if they involve other people, do so only with their free consent and participation. Mill saw this as the sphere of individual liberty.<sup>5</sup>

The other sphere, that of coercion, concerns activities that directly affect other people. Because society has a direct interest in the activities within this sphere, the state may properly exercise coercion there to promote the common good. While Mill sees freedoms of speech and assembly, conscience and religion, and other activities that are central to becoming the author of one's own life as self-regarding activities (that is, as aspects of liberty), he insists that economic activities—seeking a job, deciding whether to

save or spend the income one earns—are other-regarding and thus not aspects of liberty properly understood. In Mill's succinct formulation, "trade is a social act."<sup>6</sup> Thus, trade is a domain subject to social control and regulation rather than being a domain of protected liberty.

This is a surprisingly weak argument from a philosopher of Mill's caliber. After all, speech and assembly are acts that affect others, and in that sense, they appear to be just as "social" as trade.<sup>7</sup> So it seems we must look deeper to understand why Mill denigrates the personal importance of economic liberty in this way.

Mill's moral and political philosophy rests ultimately on a perfectionist ideal of the person. Mill sees individuality as capturing something close to the moral essence of personhood. While a self-proclaimed utilitarian, Mill emphasizes that he means "utility in the largest sense, grounded on the permanent interests of man as a progressive being."<sup>8</sup> Chief among those interests is that of developing a life plan to suit one's character. By creating such a plan, people express their distinctive sense of what is valuable and worth doing in life. By developing and pursuing such a plan, people develop their higher capacities of reasoning, develop intimate connections with others, and enhance their moral sensitivities. Mill saw intellectual pursuits as central to a well-lived life, but he famously claimed to be open to experimentation and readily acknowledged that there might be a wide range of activities and life plans that people can use to develop themselves as individuals.

However, perhaps surveying the scene from his position of social privilege, Mill did not see how activities in the economic sphere could contribute to individuality in his sense. Freedoms of thought and association are important to forming and carrying out a life worthy of a progressive being, but Mill does not see economic liberties—the freedom to hold productive property or to enter into economic contracts—as playing any central role in this process. Starting a business, holding a job, seeking a promotion, being a breadwinner for one's family, saving for the future—these are roles that economic necessity may require people to

play from time to time, but none of these activities is constitutive of liberty.

Economic life provides barren soil for the development of individuality. Progressive beings do not need economic liberty to “pursue their own good their own way.” For Mill, economic liberties are instrumentally valuable: “property is only a means to an end, not itself the end.”<sup>9</sup>

Mill is not the only hero of the Left to argue against the personal importance of economic liberty. In 1930, John Maynard Keynes wrote a remarkable essay, “Economic Possibilities for Our Grandchildren.”<sup>10</sup> Writing at a time of economic despair, Keynes expressed long-term optimism: Within one hundred years, during the lifetimes of his own grandchildren, the economies of Western democracies such as the United States and the United Kingdom would have grown approximately tenfold. At that point, roughly in 2030, Western economies would have grown enough. The economic problem, the problem of scarcity that has bedeviled mankind since our appearance on this planet, would at last have been solved. That is, we would have reached a point of sufficient wealth so that increases in capital accumulation could—and Keynes says should—cease. When this not-too-distant day of prosperity dawned, Keynes suggested, a great moral change could at last be welcomed across our social world.

What would change when the economic problem is solved? Keynes says that, finally, the busy, industrious, purposive, economic “bourgeois virtues”—taking risks and toiling, scrimping today in order to save for tomorrow, striving and sacrificing so that the lives of one’s children might be better than one’s own—might at last be recognized as the ugly vices that they have always been. We needed those deluded “virtues” to get us to the stage of sufficient wealth, but once wealth arrives, the central human problem will not be how to work better. Rather, our great problem will be how best to spend the leisure time that the toils of our parents, grandparents, and great-great-grandparents have bought us.

Keynes suggests that, for the first time in human history, life will not center on economic problems at all. Instead, life will center at last on

the only properly human question: how, amid the abundance of wealth, “to live, wisely, agreeably, and well.” And what about those who continue to show personal concern for economic questions, clinging to the traditional values of hard work and industry, self-reliance and personal responsibility? In these new conditions, Keynes says that such attitudes are not virtues but “morbid neuroses.” People who exhibit them, Keynes suggests (perhaps jokingly?), should be confined to mental institutions.

Similarly, though less colorfully, John Rawls, writing in 1971, produced a great manifesto of social justice. Rawls offers a machinery that is designed to identify a strong set of distributive principles of justice, constrained only by a short list of basic rights and liberties that limit the reach and power of government. Rawls’s spare list of basic rights includes protections in such familiar areas of human freedom as association and speech. However, following in the tradition of Mill and Keynes, Rawls makes no special place for the economic liberties of capitalism. Indeed, on his account, the requirements of liberal justice could be satisfied in what he calls a “democratic socialist” regime: that is, a regime that limited economic liberty even to the point of denying the private ownership of productive property.

## **WHAT WE VALUE AND WHO WE ARE**

With all respect, I disagree with this tradition of thinking. Economic liberties are valuable not only because of their well-documented institutional and material advantages (for example, because the protection of economic liberty is positively correlated with lower levels of corruption and with increases in per capita income). Though Lord Keynes may have looked down his long nose on the familiar work-a-day virtues associated with the economic liberties, for many ordinary working people, the development and exercise of these virtues in support of one’s own dreams and the dreams one has for loved ones comes close to the core of life.

When we make decisions about how much we are willing to work, at what wages, and in which

business sector or profession, just as when we make decisions about whether to spend now or save for later, we are not engaged in activities that are morally trivial. Instead, through our activities in these economic aspects of our lives, each of us says something important about what we value and, indeed, about who we are. Decisions about saving and spending, for example, are among the most common of economic quandaries, and these questions regularly confront people in free societies regardless of their income level. Those questions, distinctively, require that each of us think carefully about the relationship between the person we are now and the person we will become in the future.

Temporal thinking of that sort is closely connected to the process of becoming an adult. Such decisions are among the most distinctive forms of taking responsibility for one's own life and doing so in light of one's own dreams, values, and character. Economic choices about spending and saving, as with other economic decisions, such as setting oneself on one course of study or on one career path rather than another, constitute a kind of passageway from childhood or late adolescence toward full adulthood. Citizens who are denied the chance to make such choices for themselves or whose range of decision-making in these areas is truncated by others (no matter how well meaning) will live comparatively stunted lives, lives that are in some sense less fully adult.

Intriguingly, a similar assertion about the personal importance of economic liberty was made by leaders of the feminist movement during the 19th century. Early feminist leaders such as Voltairine De Cleyre argued against patriarchy in a way that put the personal importance of economic liberty front and center. No matter how "gilded" the social cage that men of that era had constructed for women, no matter how abundant the material goods made available within that cage or how tender the treatment, feminist leaders of that era, denied their economic liberties, denied the chance to have some role in the creation and selection of whatever goods they were to enjoy, insisted that a great moral wrong was being done to them.<sup>11</sup>

By denying women their economic liberties, men had prevented them from fully developing as free and independent adults—as moral equals, each one in charge of her own life. No amount of pointing to the comforts that they were being provided by their male protectors could make up for this fact. Denied full economic liberty, women of the era had been fundamentally disrespected: Their moral agency, their capacity for responsible self-authorship, had been stunted and denied.

That early feminist defense of economic liberty might well be turned against the material ambitions of some contemporary social democracies. Here again, no matter how gilded the cage of a social democracy may seem, no matter how comfortable and plentiful the social guarantees, if the cost of receiving those benefits is the violation or truncation of personal economic liberty, then there is something objectionable about this scheme. This is a world, whatever its material bounty, with great moral loss. That loss is what I mean by the personal value of economic liberty.

## **BREAKING FREE OF OLD DICHOTOMIES**

Perhaps the most alarming finding in recent editions of the *Index of Economic Freedom* has been the sharp decline in economic liberty in the United States, once a beacon of economic liberty. I believe that the personal case for economic liberty has been presented too weakly in recent years. That moral ideal has dimmed and no longer burns brightly in the mind of every citizen. Part of the reason may be that in some countries, citizens recently have become willing to heed the siren call of politicians offering ever more government services and goods in exchange for citizens giving up ever more personal economic liberty. Often, those offers of governmental services are presented as required by morality itself—say, under the banner of fairness or social justice. Thus, within contemporary political discourse, we find the personal case for economic liberty pitted against another set of powerful moral ideas: the idea of material justice.

And so citizens today face a set of political choices that are equally stark and unhappy:

democracy *or* capitalism, economic liberty *or* material justice, free markets *or* fairness. One side *or* the other, everyone has to choose. No wonder our societies have become so divided and the political rhetoric so extreme.

Thankfully, one of the most exciting developments in recent political and economic thinking has been an attempt to break free from those old dichotomies.<sup>12</sup> And here again, the *Index of Economic Freedom* has an important role to play.

One way to break the ideological deadlock might be to hold tight to both the personal and institutional cases for economic liberty but to present the institutional case in a way that emphasizes economic liberty's benefits for all classes of citizens and most especially for ordinary working people, including workers at the very bottom of the existing pay scale. If we consistently find a positive correlation between eco-

nomical liberty and important social goods such as economic growth and rising per capita income, the program of economic liberty might itself be defended on grounds of material justice and fairness too. If that message can be communicated to our fellow citizens, then a democratic case for economic liberty might be forged once again, thus better securing those liberties about which in recent years there has been so much doubt.

If we attend to the full index of economic liberties, their personal value as well as their capacity to create wealth that might be enjoyed by all, we may find ourselves living in a world of both social abundance and personal freedom: democracy *and* capitalism, economic liberty *and* material justice, free markets *and* fairness. By making this fuller case for economic liberty, perhaps people do not have to choose after all.

## Endnotes

- 1 “Executive Highlights,” in Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2013 Index of Economic Freedom* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2013), p. 1.
- 2 James Nickel, “Economic Liberties,” in *The Idea of a Political Liberalism: Essays on Rawls* (Lanham, Md.: Rowman & Littlefield, 2000), pp. 155–176. See also Lawrence C. Becker, *Property Rights: Philosophical Foundations* (London: Routledge & Kegan Paul, 1981), pp. 11–21.
- 3 A classic discussion is Anthony Honoré, “Ownership,” in *Oxford Essays in Jurisprudence: Fourth Series*, ed. Jeremy Horder (New York: Oxford University Press, 2000), pp. 107–147, at 108.
- 4 Lysander Spooner, *No Treason* (Boston: Kessinger Publishing, 2004); Murray Newton Rothbard, *For a New Liberty: The Libertarian Manifesto* (Auburn, Ala.: Ludwig von Mises Institute, 1985); Ayn Rand, *Atlas Shrugged* (New York: Ashgate Publishing Ltd., 2012); Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, 1974).
- 5 John Stuart Mill, *On Liberty* (London: Longman, Roberts & Green, 1869), esp. chap. I, sect. 12.
- 6 *Ibid.*, p. 94.
- 7 Daniel Jacobson, “Mill on Liberty, Speech, and the Free Society,” *Philosophy & Public Affairs*, Vol. 29, No. 3 (Summer 2000), pp. 276–309, at 293–295.
- 8 Mill, *On Liberty*, chap. I, sect. 11, p. 15.
- 9 John Stuart Mill, *Principles of Political Economy with Some of Their Applications to Social Philosophy* (London: Longmans, Green, 1909), Book II, chap. II, sect. 4.
- 10 John Maynard Keynes, “Economic Possibilities of Our Grandchildren,” in John Maynard Keynes, *Essays in Persuasion* (New York: W.W. Norton & Co., 1963), pp. 358–373.
- 11 Voltairine de Cleyre, *Exquisite Rebel: The Essays of Voltairine de Cleyre—Anarchist, Feminist, Genius*, ed. Sharon Presley and Crispin Sartwell (New York: State University of New York Press, 2005).
- 12 See, for example, Arthur C. Brooks, *The Road to Freedom: How to Win the Fight for Free Enterprise* (New York: Basic Books, 2012), and Stephen Moore, *Who’s the Fairest of Them All? The Truth About Opportunity, Taxes, and Wealth in America* (New York: Encounter Books, 2012). I offer a philosophical defense of this idea in *Free Market Fairness* (Princeton, N.J.: Princeton University Press, 2012). I am grateful to the Princeton University Press for allowing me to draw on material from *Free Market Fairness* for this essay.