

A Capitalist's Apology: Free Markets, Freedom, and Development

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"Capitalism: A system of economic organization, based on market competition, under which the means of production, distribution, and exchange are privately owned by individuals or corporations."

(Oxford World Encyclopedia, 2007)

The Devil and his Capitalist

Much has been written on the symbiotic natures of freedom and development. While development in itself is touted as being vital to eliminating poverty, the economic system that best promotes development is often not afforded the same treatment – free market capitalism. Amartya Sen (1999, p. 87-90, 112-113) states that poverty emerges out of capability deprivation; and while the social opportunities provided by economic freedoms (and consequently free markets) in eliminating such deprivations are oft talked about, the *raisons d'être* for wanting free markets are rarely addressed.

In order to better understand those reasons, it becomes imperative to look at not just development as a means of eliminating poverty, but also the necessity of rights in establishing a framework for free markets to succeed (Robinson, 2005). Such a framework boils down to three fundamental constituents (Smith, 1776) –

- i. Freedom of the individual to participate in the market (e.g. buy/sell what he or she wants).
- ii. Rights of the individual to enable such participation (e.g. property rights).
- iii. Social, political, and economic systems that enable, enforce, and guarantee aforementioned freedom and rights.

Even Karl Marx, who was otherwise perhaps the most vehement critic of the free market philosophy, spoke in its favor when it came to affording the individual the freedom to participate in the market place (Sen 1999, p. 113; Marx, 1848). However, mere freedom to participate in the markets is insufficient if one is not *guaranteed* the rights to one's own product. Therefore, it becomes vital that those rights are also provided in an environment that comprises the trustworthiness of institutions, security and the rule of law, and a reliable system of contract enforcement (Mokyr, 2002, p. 285; Robinson, 2005, p. 27).

Seen thus, it becomes evident that while development benefits from free markets may help in eliminating poverty and fostering other human rights; free markets in themselves constitute and represent a fundamental human freedom.

The Devil and his Advocate

That free markets can help development is widely agreed upon. Both Sen (1999) and Uvin (2004) talk extensively about the interplay between rights, freedom, and development, and how economic freedom is vital for rights and development. However, what role can free markets play in eliminating poverty? This requires us to define what constitutes poverty. Such a definition would reveal that poverty is not a singular entity, but rather a multidimensional human condition (White, 2005, p. 2; Deepa et al., 1999, p. 4). It then becomes evident that economic freedoms have the ability to affect some dimensions of poverty, but not all. After all, if economic development can be defined as wealth creation, and if wealth creation and well being are not the same (Deepa, 1999), then poverty in all its dimensions cannot be fully eliminated *only through* free market capitalism.

Furthermore, emergent development stemming from free market capitalism is a system of change – creative destruction – that engenders changes in skills, process, technology, and utility by its very nature in that it aims for and rewards efficiency (Schumpeter, 1942). Therefore, capitalism's production mechanisms, while helpful in development, come with social costs brought about by ceaseless innovation (Schumpeter, 1942) and can foster an environment of unemployment and poverty (White, 2005).

Adoption of free market capitalism by authoritarian states can also exacerbate existing conditions through a culture of "resource privilege" (Pogge, 2008, p. 168). Such exacerbation is often cheered on as a result of ethical imperialism (Schumpeter, 1942; Uvin 2004, p. 60) brought forth by countries like the U.S. enforcing free market conditionalities on societies that are not yet in a position to truly ensure (and benefit from) free market capitalism.

The Devil and his Dues

Noam Chomsky (2003), one of the fiercest critics of capitalism as the U.S. practices it, has acknowledged that despite his misgivings, the U.S. is one of the freest countries in the world today, in no small part because of the economic freedoms accorded to its citizens.

However, free market capitalism cannot exist in a vacuum. It requires *a priori* a society that has the ability (social, political, economic) to nurture it through domestic and international institutions. If one is to believe Adam Smith (1776), all economic actions stem from enlightened self interest. Therefore, such self interest could often affect the provision of public goods, or result in transgression of rights of those less privileged. Seen thus, *laissez-faire* capitalism would be anarchy in the absence of rule-sets; what distinguishes capitalism from *laissez faire* are rule-sets and regulation. The onus of ensuring a free and fair environment then falls upon the (hopefully neutral) logical choice – the state (Robinson, 2005, p. 27). Keynesian and other similar philosophies advocate just this, where the state acts as an enabler of free markets, and steps in only when necessary to perform "corrections" stemming from problems endemic to any such system.

It must also be acknowledged that while capitalism and democracy grew hand in hand, and while both are certainly desirable, democracy is not an absolute necessity in guaranteeing economic freedoms (Schumpeter, 1942; Zakaria, 2003). Indeed, it is quite possible for democratic societies to be "illiberal" from an economic standpoint, if it so benefits them (Zakaria, 2003).

The Devil Himself

No ideology is absolute, and capitalism certainly falls short. However, to paraphrase one illustrious countryman of mine, Amartya Sen, quoting another illustrious countryman, Gautama Buddha – moderation in everything, including perhaps the markets themselves – in the hope that the Buddha would have agreed.

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