Should individuals be free to pursue economic interest?

“ It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest.” Adam Smith’s revolutionary *Wealth of Nations* has ever since driven our understanding of how individual freedom to pursue self-interest can enhance societal wellbeing. It seems ideal, to those who prize personal liberty, that individuals should have the autonomy and agency to improve their material state of being and aspire to progress. However, it would be a mistake to think that individuals should have absolute freedom-that is, to have ability to do anything to improve their economic situation unrestrained by regulation or socio-moral constraints. Beyond a certain point, the freedom of an individual to pursue their economic interests could trample on the economic conditions of other individuals or even adversely impact their own interests in the long run. Unbridled individual economic freedom may also reshape society and impinge on our shared values in undesirable ways. Some restraint and regulation is therefore necessary.

Theory and evidence support allowing individuals to engage in self-driven free market activity. The failure of totalitarian communist experiments in the Soviet Union, Communist Cambodia, Mao’s China etc. are often cited as salient and painful illustrations of the tragic impact and detrimental inefficiencies centralising economic decision-making to a few powerful elites can bring about. Given that supply and demand are determined by multiple factors and diverse, dynamic individual contexts, the impossibility for any centralised authority to predict and plan production and consumption to adequately fulfil the needs of any sizeable society is now apparent. In contrast, the economic self-determination facilitated by Adam Smith’s ‘

invisible hand' of price mechanisms in capitalist societies has produced significantly better material outcomes in aggregate, as evidenced historically (Lawson, 2008). Why? Friedman (1980; pp. 13) writes: " The key insight of Adam Smith's Wealth of Nations is misleadingly simple: if an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it…prices that emerged from voluntary transactions between buyers and sellers could coordinate the activity of millions of people, each seeking his own interest, in such a way as to make everyone better off". The underlying idea that all voluntary trade is necessarily mutually beneficial logically implies that allowing such exchanges via the free market will always improve wellbeing. If we want to maximise material welfare, what grounds are there for economic freedom to be restricted?

One intuitive reason is that individuals' actions in their own economic interest need not always involve the consent of all parties affected or take place via a voluntary exchange. Most societies restrict individuals from pursuing their economic interests by cheating, plunder, robbery, murder, or a host of other criminal activity that contravene our basic ideals of justice and morality and keep others from their own economic interests. It follows that there are grounds to restrain voluntary free market exchange. If we acknowledge that voluntary market transactions can reduce the welfare of certain individuals or violate our principles, then we should similarly place restrictions on such activity. This is rooted in our understanding that although free markets are always benign in theory, they are virtually non-existent in their perfect theoretical form. Joseph Stiglitz (2001; pp. vii-xvii) elucidates that " Today, there is no respectable intellectual support for the

proposition that markets, by themselves, lead to efficient, let alone equitable outcomes. Whenever information is imperfect or markets are incomplete-that is, essentially always-interventions exist that in principle could improve the efficiency of resource allocation." Such interventions may include restraining certain individuals in certain contexts from exercising absolute economic freedom.

Imperfect information, or our limited ability to process available information may lead to the pursuit of preferences that do not actually lead to greater welfare. Our preferences may not ' track' with welfare (Bradley 2017). For example, one may argue that individuals who freely choose to sell their kidneys in pursuit of financial gain may be unaware of the true economic impacts of such a decision, and fail to consider health issues, bills, and reduced work ability down the line (Dickenson, 2008; pp. 154, Satz, 2010). There is therefore some reason for individuals to be restricted in, or wholly prevented from pursuing potentially regrettable courses of action. This may seem vaguely paternalistic. Who understands the needs of individuals, or are invested in the welfare of individuals, more than they themselves? Perhaps no one can else better understands individuals' unique circumstances, but social psychology tells us that more universal failings often come into play. We know about, and should pre-empt momentary lapses (Kahneman, 2011) and inevitable limits to information and cognition (Gaskell, 2017; Sunstein, 2014). In making once-in-a-lifetime transactions: selling a kidney, or (more commonly) getting a mortgage loan, we have limited reference-points off which to calculate costs and make our decisions. Especially in times of stress we may be blindsided, discounting future value for immediately tangible

cash rewards. It makes sense to pre-empt our mistakes and cordon off certain choices: for instance, barring individuals from taking on excessive debt, or limiting the contexts under which they can give up their kidneys.

Private decisions may have the side-effect of harming wider society. With such negative externalities, we cannot assume net-benefit to society even when parties to voluntary transaction improve wellbeing. Even if net-benefit does occur, one might question the ethics of allowing harm to come to by-standers from the economic pursuits of a few. The classical example of environmental commons tragedies show how the pursuit of profit by extractors and polluters today cut into the ability of competitors, locals, future generations and themselves to pursue or sustain their economic interests. Another particularly interesting example lies again with kidney markets. Sociologists have raised the possibility that the normalisation of kidney sales could, and may have in certain locales, generate a paradigm shift where bodily organs become treated as a last financial asset, thereby reducing the credit access of those poor individuals who refuse to put up their kidneys as collateral (Satz, 2010). The economic freedom of some to sell or buy kidneys would have adverse impacts on the economic choices of others in society.

Even if we can guarantee benefit to parties involved in free transactions inequitable distribution should be of concern. While Friedman (1980; pp. 13) contends that “ Most economic fallacies derive from…the tendency to assume that there is fixed pie, that one party can gain only at the expense of another”, it remains that there is a pie of a certain size to be divided at any given time, and room for certain individuals to grab more than their fair

share. The fact that voluntary transactions benefit all parties involved is not mutually exclusive to them also being inequitable. Indeed, the second fundamental theorem of welfare in Economics tells us that for each efficient outcome, there are multiple points of equilibrium with varying degrees of equity. The surge in top managerial salaries amid middle-skilled wage-stagnation, partially resulting from the ability of managers to set their own wages, perhaps show how certain powerful individuals can stake a greater, not necessarily deserved, claim to the spoils (Piketty, 2014; pp 24). Although it clearly is still in the economic interests of workers to remain employed under these managers, it is less apparent if this justifies the unrestrained ability of top managers to set wages in their own economic interest. We may also think of the recent EpiPen price hike. Consumers still derive net benefit by voluntarily purchasing these products, but we feel a visceral sense of injustice. Such inequalities may be undesirable due to its ability to outspread to different areas of life, as the economically powerful become powerful in a greater number of domains and erode equality in access to certain things for which equality is fundamental (Bradley, 2017) such as in healthcare. We may oppose voluntary trade in human organs similarly because it opens a new dimension through which inequality may be exacerbated rather than reduced (Satz, 2010). Inherently, gross inequalities in income and control of assets may also lead to a host of social problems, limit economic mobility (Wilkinson and Pickett, 2010) and undermine equal status and egalitarian interaction.

Notably, scenarios like this occur not so much due to the natural laws of an impartial system but unevenness carried over from society. The concept of

embeddedness leads us to consider that “ markets are social institutions which are constructed in culturally specific ways, may be controlled by social groups or classes, and have important connections to other institutions and social processes” (Dodd, 2017). Society makes the decision, by default or otherwise, to give corporate managers more economic power than their workers (consider differences in wage bargaining between Germany and the United States), and to set boundaries for firms about mergers, prices, and transparency etc. Just we have determined that deliberate coercion or misinformation should be prohibited, we should also consider the effects of more implicit imbalances or ‘ coercion by circumstance’ and what needs to be done. Further examples like Indian ‘ untouchables’ relegated to the most undesirable, low-paying jobs, or women made to accept a small share of total compensation for surrogacy (Phillips, 2017) also defy the assertion that “ people in a free society do not become rich by exploiting others” (Butler, 2013). It is then up to society to close the disparity in power as they see fit, and to limit the freedomof those at the top to pursue their economic interests in such a manner.

Stiglitz (2001) argues that “ Regulations may take away someone’s freedom, but in doing so they may enhance another’s.” It is often true that individual economic pursuits create win-win scenarios and a flourishing of value-creation and innovation, but it is undeniable that they can often also involve trade-offs. Individuals should be free to pursue their economic interests, but there is a societal need to constantly deliberate about the extent of such freedom, and who gets it.

Bibliography:

- Bradley, R. (2017) “ The Moral Status of the Market: Sex, Blood and Organs.” Retrieved from the LSE100 Moodle site on 20 March 2017. http://moodle. lse. ac. uk.
- Butler, E. (2013) ‘ Foundations of a Free Society’, Institute of Economic Affairs. Available from: https://iea. org. uk/publications/research/foundations-of-a-free-society
- Dickenson, D. (2008), Body Shopping: Converting Body Parts to Profit
- Dodd, N. (2017). “ The Sociology of Markets and Money.” Retrieved from the LSE100 Moodle site on 20 March 2017. http://moodle. lse. ac. uk.
- Friedman, M. and Friedman, R. D (1980), ‘ Chapter 1 The Power of the Market’, in Free To Choose: A Personal Statement
- Gaskell, G. (2017) “ In pursuit of the rational person.” Retrieved from the LSE100 Moodle site on 20 March 2017. http://moodle. lse. ac. uk.
- Kahneman, D. (2011), Thinking, Fast and Slow. Farrar, Straus and Giroux
- Lawson, R. A. (2008) ‘ Economic Freedom’, The Concise Encyclopedia of Economics. Available from: http://www. econlib. org/library/Enc/EconomicFreedom. html
- Phillips, A. (2017) “ Moral Limits to Markets.” Retrieved from the LSE100 Moodle site on 20 March 2017. http://moodle. lse. ac. uk.
- Piketty, T. (2014), Capital in the Twenty-First Century. Cambridge, Massachusetts : The Belknap Press of Harvard University Press
- Satz, D. (2010), Why Some Things Should Not Be For Sale: The Moral Limits of Markets.
- Stiglitz, J. (2001), ‘ Foreword’ in K. Polanyi, The Great Transformation

- Sunstein C. (2014), Why Nudge? The Politics of Libertarian Paternalism. Yale University Press
- Wilkinson, R. and K. Pickett (2010) ‘ Poverty or Inequality’ Excerpt from *The Spirit Level: Why Equality is Better for Everyone* . London: Penguin Books