

Economic freedom essay

[Philosophy](#), [Freedom](#)



1. Adam Smith and Karl Marx were perhaps the most well-known economists of their time, however, their viewpoints on economics and economic development differed to a great extent. Adam Smith is most famous as a founder of the Classical Economics and a strong supporter of economic freedom and trade. Unlike mercantilists, Adam Smith tried to establish principles, which could benefit the whole nation, rather than some individuals. In his book “ Inquiry into the Nature and Causes of the Wealth of Nations” he introduces the term “ system of natural liberty”, which is equivalent to the current definition of capitalism. According to Smith economic freedom is a prerequisite for competitiveness and prosperity. He considered all kinds of interventions into the mechanism of the market unfavourable, since they destroyed the balance, which was established by the so called “ invisible hand”. People in a free market were assumed to make rational decisions, which were based on self-interest (Twigg).

Karl Marx, on the other hand, was a supporter of socialism/communism in economics and a fierce anti-capitalist. His theory advocated collective or governmental ownership of the factors of production and asserted that labour was the key element in determining the real value of goods/services. He was strongly opposing the capitalistic society of the 19th century, which separated people into social classes and favoured the rich. Communism, according to Marx, had no classes, therefore there was no competition in the society and everyone got free access to all the available resources (Twigg).

Although capitalist and communist societies differ greatly, some of the aspects of the theories by Karl Marx and Adam Smith can be found similar.

Thus, in both of them labour is considered the key element for calculating the product value. Moreover, they were both trying to achieve extended benefits for the society as a whole, however they were doing it through different means. The success of these two theories could be now assessed looking back at the economic development patterns. Pure capitalism in the nineteenth century led to mass exploitation of the working class by the rich and to further widening of the income gap. Karl Marx's communism could not be implemented successfully in the real world either, and it resulted in a collapse of many communism-oriented countries. However, the ideas of Karl Marx and Adam Smith have not lost their relevance because of their unsuccessful implementation. They have found reflection in the economic policies of most contemporary countries, which try to create a functional economic policy based on the two models. Thus, free trade and competition are currently pursued by many countries in the world, while limiting "the invisible hand" by introducing governmental regulations of working conditions, trade regime and income redistribution. Therefore, neither pure communism nor pure capitalism has a chance to exist, since they are only models, which represent the reality in an oversimplified way. However, both of them can be incorporated into a hybrid model, which would be able to reflect the needs of the modern world and to ensure country's successful development and economic prosperity (Twigg).

2. Dr. Lawson, one of the developers of the "Economic Freedom of the World" index believes that economic liberty, advocated by Adam Smith, is a crucial element of economic development even today. Economic freedom, according to Lawson, is a system, which consists of free trade, property

rights, private property, free markets and the rule of law. The role of government, in this case, is limited to protecting rights and providing infrastructure for further development. The results of the economic freedom assessment show that countries, which have adhered to the principles of capitalism, are usually doing much better than those, where economic and political freedom are still lagging behind. Thus, countries with high ranking in economic freedom usually have higher average income per-capita and economic growth rates, than in the countries with low rating. Income inequality in less free countries does not differ significantly from that in the economically and politically free countries, therefore the basic argument against economic liberalization fails to hold in reality. However, poor people in free countries have a per-capita income approximately 10% higher than the poor in the least economically free countries. Therefore, it is possible to conclude that the poor contribute from economic freedom just as much as the rich.

3 . Bahrain has been ranked 11th in the level of economic freedom out of 141 countries, which were considered for the Economic Freedom of the World: 2011 Annual Report. Its score of 7, 59 placed Bahrain right below the United States of America and above such European countries as Germany and Finland. The country has seen a significant improvement from 2005, when it ranked only 54th . Such results were achieved through gradual, but consistent improvement in the area of access to sound money and through stable high levels of freedom in governmental size, security of property rights, freedom of international trade as well as in credit, labour and business freedom. Although the overall rating indicates a relatively high

degree of economic and political freedom, there are still some aspects, which need further improvement, especially in the areas “ size of government” and “ legal structures and security of property rights”. Thus, governmental consumption is very high in Bahrain, which indicates that personal choice is being substituted by governmental decisions and provisions. The number of governmental enterprises in the economy also indicates that there is a large degree of centralized decision-making. The impartiality of the courts is another concern for Bahrain, because inability to provide impartial court system undermines the rule of law and the security of property rights. Hiring and firing laws in Bahrain should be also reconsidered, since they limit economic freedom in the country. Lastly, price control in Bahrain indicates high level of governmental intervention and infringes economic freedom. The improvement in the abovementioned areas could benefit the overall rating of Bahrain and increase economic and political freedom in the country (Gwartney, Lawson & Hall, 2011).

References

Gwartney, J., Lawson, R., & Hall, J. (2011). *Economic freedom of the world: 2011 Annual report*. Vancouver, B. C.: Fraser Institute. Retrieved from [http://www. freetheworld. com/2011/reports/world/EFW2011_ complete. pdf](http://www.freetheworld.com/2011/reports/world/EFW2011_complete.pdf)

Twigg, L. M. (n. d.). *Karl Marx versus Adam Smith*. Retrieved from [http://rebirthofreason. com/Articles/twigg/Karl_Marx_versus_Adam_Smith. shtml](http://rebirthofreason.com/Articles/twigg/Karl_Marx_versus_Adam_Smith.shtml)