

LIBERTY, AND POSSIBLY WEALTH

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Among economists, there are two widely held but quite different concepts of freedom. F. A. Hayek defines freedom as "the state in which a man is not subject to coercion by the arbitrary will of another or others."¹ This noninterference concept of freedom, also strongly supported by Milton Friedman and Fritz Machlup, holds that the essential component of individual freedom involves being free from external coercion and restraint by other people.² In the words of Friedman:

Political freedom means the absence of coercion of a man by his fellow men. The fundamental threat to freedom is power to coerce, be it in the hands of a monarch, a dictator, an oligarchy, or a momentary majority.³

The noninterference, or lack of coercion, concept has been strongly challenged by an "effective power" concept of freedom. In the latter view, freedom is identified with the power to act, and freedom in the sense of noninterference is held to be of no practical value to those who lack buying power.

George Stigler, in a recent article, develops a version of the effective-power concept of freedom. He identifies freedom with the "domain of choice" and challenges the validity of the concept of freedom that distinguishes coercion by other men from other limitations on choice.⁴ Freedom or liberty in this domain-of-choice sense expands with an enlargement of income and wealth, which increases the effective capacity to choose.

A wider domain of choice is another way of saying that a person has more freedom or liberty. From this viewpoint one can properly say that even with the vast expansion of public controls over earning and spending in the United States since the Civil War, there has been an enormous expansion in the average individual's liberty.⁵

In this view, freedom increases with the amount of income and the consequent increase in size of the individual's opportunity set. It

follows that an increase in income widens the domain of choice even in highly regimented societies. It is contended that the present-day Russian, for example, has more liberty than his nineteenth-century ancestors because his income is higher.⁶

In challenging the noninterference meaning of freedom, Stigler argues that it is (1) not possible and (2) pointless to distinguish between restrictions imposed upon an individual's range of choice by budget limitations (limitations of income or of wealth) and restrictions on choice due to coercion by others. The following analysis suggests that wealth and freedom are not synonymous and that there are important reasons for retaining a noninterference concept of freedom.

CAN THE DISTINCTION BE MADE?

In challenging the Hayekian view that freedom represents the absence of coercion by others, Stigler contends that many, and perhaps all, of the restrictions imposed upon our range of choice by wealth are, at least to some extent, the product of the behavior of other people. Consider two examples presented by Stigler where restrictions on our range of choice are alleged to be in some measure the product of the behavior of others:

1. If I cannot attend a symphony concert because there are not enough other demanders of a symphony orchestra in my community, my wealth has been reduced (in utility terms) by the behavior of others.
2. If other people have reduced their demand for symphony concerts because of taxation (not necessarily progressive) of income by the state, have I lost liberty or only wealth?⁷

The first example in which my wealth is alleged to be restricted by other people is not persuasive. If I cannot attend a symphony because not enough people wish to attend, in what sense is it appropriate to say that my wealth has been *reduced* by the behavior of others? First, the contention that it has been implies that my level of wealth has been or could be higher. It is correct that my wealth as a music lover would increase, *ceteris paribus*, were demand sufficiently great to justify a symphony orchestra. Nevertheless, it seems odd to contend that my wealth has been reduced in this case, since presumably demand has not been sufficiently great in the past to justify

a symphony orchestra. Stigler's case would appear to be an example of what Harold Demsetz has described as the nirvana approach.⁸ My wealth is reduced only when compared with what it would be if people's tastes were more to my liking. The conclusion that my wealth is reduced in this case implies that somehow people's tastes should be different and that, if they were, my wealth would be higher.

Second, to blame this lack of wealth on my part on the behavior of other people (not enough people will support a symphony orchestra) implicitly assumes that I have a "right to music." Other people cannot have an obligation to support an orchestra unless I have a right to such music. The "right" to music is similar to the "right to food" and other "economic rights." Such positive rights demand as their counterpart that someone must provide what others have the purported right to. Yet nowhere does Stigler purport to establish such a right or such an (unchosen) obligation on the part of other people.⁹

This example illustrates the difference between the "I may" (noninterference) and "I can" (effective-power) concepts of freedom.¹⁰ In the example cited, I am free to ("I may") attend a symphony concert although I cannot do so. I am free in the noninterference but not in the effective-power sense. The reason I do not have an opportunity to attend a symphony concert is not coercion by other people but rather wealth limitations.

The second case with which Stigler questions our ability to distinguish coercion by others from other limitations on choice is one where a symphony orchestra was presumably profitable and available until taxation reduced the demand, eliminating my option to attend a symphony concert. Which is affected—"liberty or only wealth"?

Political actions frequently affect liberty as well as wealth. Any tax involves coercion. The higher the tax, the more coercion involved and the more effort devoted to circumventing the tax. The fact that the benefits may exceed the costs of taxation for some people does not negate the fact that liberty or freedom is affected by taxation even though the tax is a general one and is not intentionally capricious in its effects. The effects of any tax can be quite different for different individuals depending upon the circumstances. Whether my welfare has suffered depends upon my subjective assessment of the situation. Freedom, like material wealth, is but one aspect of welfare.

In reality, there are conflicts of freedom, and it is not always easy to assess the impact of a policy on freedom. Stigler mentions the example of limitations on auto parking.¹¹ Freedom on my part to ignore traffic regulations, for example, interferes with the freedom of other people to drive. In traffic regulations, we accept restrictions on driving as a way of obtaining the maximum freedom to drive. There are also conflicts of freedom within the economic sphere.

The freedom of coalition and of contract may be used to restrict the freedoms of work and enterprise, and thereby the freedoms of choice of consumption and occupation. We know of many instances where workers' or businessmen's combinations have created monopolistic positions restricting entry into occupations or industries.¹²

The fact that freedoms may conflict and that policies may affect liberty as well as wealth does not lessen the importance of retaining separate meanings for freedom and wealth. Both contribute to welfare, but neither should be equated with welfare. Furthermore, different people are likely to place different weights on the importance of freedom and material wealth.

PURPOSE OF DISTINCTION

The purpose of distinguishing the effective power from the non-interference concept of freedom is clearly seen in the case of limitations by nature. The concept of freedom becomes meaningless when it is expanded to include naturally occurring limitations of human capacities and opportunities. Freedom is logically identified with the threat of being restricted by other people. If constraints on my behavior are due to nature, in what sense is it meaningful to say that my freedom is infringed? An infringement of freedom has moral connotations. Consequently, only human conduct can appropriately be called just or unjust.¹³ In the case of freedom of scientific inquiry, for example, "Would it not be preposterous if some ultra-pragmatists were to say that Professor X lacks freedom in inquiry since, although no one limits his research activities, his reasoning powers are limited?"¹⁴

The contention that it is pointless to distinguish between restrictions on wealth and liberty in the example cited by Stigler concerning gasoline rationing is also not convincing.

Whether the state forbids me (by a rationing system) to use more than ten gallons of gasoline a week, or whether I am prevented from doing so by its high price (not including taxes) is of little direct significance to me; in either case my driving is limited by decisions (to ration or to buy gasoline) of my fellow citizens.¹⁵

While an individual's driving may be limited to the same extent by state-imposed rationing as by limitations of wealth in the immediate moment of time, rationing restricts the range of choice more as conditions change and the individual has an opportunity to make adjustments. Market rationing permits the individual to use more gasoline when his income increases or when other conditions change so that he prefers to substitute gasoline for other goods. In the absence of gasoline rationing, the individual can make choices now (e.g., moonlight to earn additional income) that will eventually enable him to exercise that freedom.¹⁶

The idea that legal restraints are important only insofar as they affect the domain of choice suggests that restraints that do not affect my current opportunity set are unimportant, or that as an individual I am oblivious to all political restraints that are not binding on me. In this view, a legal prohibition against long hair, men's hats, ice hockey, or Cadillacs would appear to be of "little direct significance to me." Yet, if people generally acted in accordance with narrowly defined self-interest and were oblivious to all political controls or restrictions on individual behavior that did not currently affect them, there could be little support for a free society. Mutual tolerance is important in establishing the formally defined rules as well as in numerous interactions that are conducted in an orderly manner without rules.¹⁷

There is evidence that people are, in fact, concerned about political controls that are not currently binding on them. George McGovern discovered in 1972, for example, that his proposal for a large increase in estate taxes was opposed even by many people for whom such increases were of "little direct significance."

FURTHER IMPLICATIONS

It is also important to maintain the distinction between freedom and wealth in contrasting the market with a centrally directed economy. There is a growing consensus that central direction is

inefficient as judged by its ability to produce material goods and services (wealth).¹⁸ Opposition to the market system, however, focuses on moral or ethical issues.¹⁹ If restrictions on choice arising from coercion by other individuals are not differentiated from budget limitations, there is no basis for differentiating between economic and political systems on grounds of freedom.

In the effective-power concept of freedom, general increases in wealth imply general increases in liberty.²⁰ This pragmatic view is consistent with the utilitarian approach, which holds that the ultimate standard in judging an institution or policy is whether it is a useful means for helping the "immense majority" attain their chosen ends *whatever those ends may be*. The idea that the ends are taken as given and that goodness is measured by numbers of proponents is clear in the following passage:

I share Hayek's opposition to a host of modern public policies. They certainly cannot be opposed effectively on moral grounds: the moral views of a large share of the population are highly congruent with these policies. If a policy is demonstrably inefficient in achieving its goals, the more efficient policy ought to be preferred by members of the society.²¹

If the ends are taken as given and the only consideration is the efficacy of alternative measures to achieve those ends, there is nothing to protect individual rights.²² There is no reason to expect momentary majorities to be staunch guardians of minority rights. The power to coerce is a threat to freedom whether the threat is by a dictator or a democratic majority. Thus, freedom of the individual may conflict with majority rule. In summary, the utilitarian approach implies neither free markets nor the protection of other individual rights.²³

There is another important reason for keeping the freedom and wealth concepts separate. Freedom as a component of total welfare is desirable in and of itself. Although there is a great deal of evidence that freedom and prosperity are positively correlated, freedom would be considered desirable by many people even if it were to involve a trade-off with material goods and services.²⁴ This point was clearly made by Wilhelm Röpke:

It is for the same reasons that I champion an economic order ruled by free prices and markets. . . . this is the only economic order compatible with human freedom, with a state and society which safeguard freedom, and with the rule of law. . . . We

would uphold this economic order even if it imposed upon nations some material sacrifice while socialism held out the certain promise of enhanced well-being.²⁵

When freedom is identified with material wealth, the economic order is evaluated solely in terms of output of goods and services. There is a great deal of evidence, as suggested above, that the market economy is most productive in terms of material output. This fact alone, however, will not answer those who criticize the market on humane grounds. Furthermore, the identification of freedom with material wealth undermines the arguments of those (like Röpke) who defend the market on humane grounds. If freedom cannot be distinguished from material wealth, that political and economic system is most free which is most productive in terms of material output. This discounts the value of freedom as an end in itself as well as the significance of the often-cited relationship between economic and political freedom.²⁶ As Röpke, Friedman, Hayek, Ludwig von Mises, and many others have persuasively argued, there is no way to preserve political freedom in the absence of economic freedom. In Friedman's words:

Historical evidence speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that has not also used something comparable to a free market to organize the bulk of economic activity.²⁷

When freedom is identified with or considered to be indistinguishable from material wealth, the concept of political freedom loses much of its meaning. What happens, for example, to the concept of civil liberties when no distinction is made between restrictions due to political regulations and those due to wealth? Are free institutions only valuable insofar as they lead to increases in material output?²⁸ Was the most important effect of the recent Khmer Rouge regime in Cambodia associated with the decrease in rice production? Is there really no important distinction "between the liberty of a man who is legally free to travel abroad but lacks the wherewithal to do so and a man who has the wherewithal but is forbidden by the state to travel"?²⁹ Or, between the man who has insufficient funds to print a newspaper and the man who is legally forbidden to do so? Is freedom of inquiry of no value to those who are not so engaged? More generally, are only those political constraints that are currently binding important to us?

CONCLUSIONS

Although both material wealth and liberty contribute to welfare and expand the domain of choice, they are different concepts. Freedom means noninterference, while wealth involves material goods. The distinction between wealth and freedom is not always clear-cut, since many policies affect both wealth and liberty. It is important, however, that the distinction between freedom and wealth be maintained, since people reveal by their actions that they perceive a trade-off when increases in individual freedom can only be secured by a reduction in wealth. Thus, the "freedom to be one's boss," for example, is often cited as a reason for accepting a lower-paying job. Further, many American settlers came to the United States for reasons of political and religious liberty.

The market is criticized on a number of grounds despite its demonstrated superiority in the production of goods and services. Some people dislike the market because the "wrong things" get produced, others because it is based on self-interest, and still others because it does not achieve "social justice." Many socialists are willing to forgo the productivity of the market for ideological reasons. Collectivist methods of agricultural production are maintained in Russia and China, for example, despite much greater productivity on private plots. Egalitarian measures are supported in the West despite their effects on material prosperity.³⁰

It is important, then to maintain the distinction between freedom and wealth in assessing the effect of alternative political and economic systems upon freedom and material wealth. If freedom is defined as effective power to obtain what one wants, the important relationship between freedom and the market is obscured. Individual freedom is a necessary (though not sufficient) condition for achieving prosperity.³¹ Thus, it is important to maintain the distinction between wealth and freedom both because of the demonstrated relationship of freedom to material wealth and because freedom is an end of itself. Both issues are important in any assessment of collectivism versus the market.

1. F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), p. 11.

2. Fritz Machlup, "Liberalism and the Choice of Freedoms," in *Roads to Freedom: Essays in Honour of F. A. von Hayek*, ed. Erich Streissler, G. Haberler, F. A. Lutz, and F. Machlup (London: Routledge & Kegan Paul, 1969), p. 124.

3. Milton Friedman, *Capitalism and Friedman* (Chicago: University of Chicago Press, 1962), p. 15.

4. G. J. Stigler, "Wealth and Possibly Liberty," *Journal of Legal Studies* 7 (June 1978): 213-17.

5. *Ibid.*, p. 214.

6. R. A. Posner, "Utilitarian Economics and Legal Theory," *Journal of Legal Studies* 8 (Jan. 1979): 140.

7. Stigler, "Wealth," p. 215.

8. "In practice, those who adopt the nirvana viewpoint seek to discover discrepancies between the ideal and the real and if discrepancies are found, they deduce that the real is inefficient." H. Demsetz, "Information and Efficiency: Another Viewpoint," *Journal of Law and Economics* 12 (1969): 1.

9. Hayek demonstrates why "economic rights" are incompatible with a free society. "If such claims are to be met, the spontaneous order which we call society must be replaced by a deliberately directed organization. . . . They [members of society] could not be allowed to use their knowledge for their own purposes but would have to carry out the plan which their rulers have designed to meet the needs to be satisfied. From this it follows that the old civil rights and the new social and economic rights cannot be achieved at the same time but are in fact incompatible; the new rights could not be enforced by law without at the same time destroying that liberal order at which the old civil rights aim." *Law, Legislation and Liberty*, vol. 2, *The Mirage of Social Justice* (Chicago: University of Chicago Press, 1976), p. 103.

10. Machlup, "Liberalism," p. 124.

11. Stigler, "Wealth," p. 215.

12. Machlup, "Liberalism," p. 139.

13. "If we apply the terms to a state of affairs, they have meaning only in so far as we hold someone responsible for bringing it about or allowing it to come about. A bare fact, or a state of affairs which nobody can change, may be good or bad, but not just or unjust." Hayek, *Law, Legislation and Liberty*, 2: 31.

14. Machlup, "Liberalism," p. 125.

15. Stigler, "Wealth," p. 216.

16. The distinction between personal freedom and buying power is important not only in the case of legal prohibitions but also in cases where religious, moral, or social pressures affect the choices of the individual.

17. "If Americans lose mutual tolerance for each other; if they do not continue to accept 'live and let live' precepts for many of their social interactions independently of governmentally determined coercive rules the area of civilized life that is both anarchistic and orderly must shrink, with untold consequences in human suffering." James M. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan* (Chicago: University of Chicago Press, 1975), p. 5.

18. Milton Friedman, *The Economics of Freedom* (Cleveland: Standard Oil Co., 1978), p. 9. See also Paul Johnson, "Has Capitalism a Future?" *Freeman*, Jan. 1979, pp. 47-50.

19. Friedman, *Economics of Freedom*.

20. "Let me ask of any proposed or actual policy: will it increase the wealth of the individuals in a society? If it does, on balance it will increase the range of options available to the people in that society. The income distributional effects of the change in wealth, I assert, will be swamped by the change in aggregate wealth." Stigler, "Wealth," p. 217.

21. *Ibid.*

22. This is illustrated by the dispute among utilitarians about whether average or total happiness should be maximized. "If the poorer half of the population of Bangladesh were killed, the standard of living of the remaining half, and for all one knows their subjective happiness as well, would rise because of the higher ratio of people to land and other natural resources. However, the *total* happiness might be

less." Posner, "Utilitarian Economics," p. 113. Leland B. Yeager points out the shortcoming of this utilitarian approach: "But whether a proposed policy is good or bad is not simply a matter of whether or not the policy can now command the support of a majority or even of everybody. . . . If a social philosopher or policy adviser fails to face the question of values squarely and, instead, tacitly employs the relatively unexamined specific failures of the 'community' . . . he is in effect adopting those values himself without analyzing them." "Pareto Optimality in Policy Espousal," *Journal of Libertarian Studies* 2 (1978): 212.

23. "More specifically, Ludwig von Mises to the contrary notwithstanding, neither praxeological economics nor Mises's utilitarian liberalism is sufficient to make the case for laissez faire and the free-market economy. To make such a case, one must go beyond economics and utilitarianism to establish an objective ethics that affirms the overriding value of liberty and morally condemns all forms of statism, from egalitarianism to the murder of redheads, as well as such goals as the lust for power and the satisfaction of envy. To make the full case for liberty, one cannot be a methodological slave to every goal that the majority of the public might happen to cherish." Murray N. Rothbard, "Praxeology, Value Judgments, and Public Policy," in *The Foundations of Modern Austrian Economics*, ed. Edwin G. Dolan (Kansas City: Sheed & Ward, 1976), p. 109.

24. In the words of Antony Flew: "Even if I thought that a socialist economy could deliver the goods and make us prosperous, I'd still be against socialism because for me liberty is more important than prosperity. It is a happy thing that the policies that would make us rich are also the policies of freedom. But, if I had to choose between riches and freedom, then I would choose, without hesitation, freedom." An interview with Antony Flew in (World Research) *Ink*, Apr. 1979, p. 9.

25. Wilhelm Röpke, *A Humane Economy* (Chicago: Henry Regnery, 1960), p. 5.

26. "Economic arrangements play a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements is itself a component of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom." Milton Friedman, *Capitalism and Freedom*, p. 8.

27. *Ibid.*, p. 9.

28. "Moreover, one and the same freedom may be valued both as an end in itself and as a means to other ends. For example, freedom of enterprise may be a means to more material progress and abundance, a means to the preservation of other liberties, and, at least for some of its advocates, an end in itself." Machlup, "Liberalism," p. 129.

29. Posner, "Utilitarian Economics," p. 140.

30. ". . . the masses have in the past and presumably will in the future continue knowingly to support egalitarian and other statist measures on behalf of others of their goals, despite the knowledge that their income and wealth would be reduced." Rothbard, "Modern Austrian Economics," p. 107.

31. "Massive evidence, including experience of [foreign] aid, makes clear. . . that income and progress depend very largely on personal, social and political factors, and not on physical or financial resources." P. T. Bauer, "Breaking the Grip of Poverty," *Wall Street Journal*, Apr. 18, 1979.