

The Road to Freedom: Economics and the Good Society

Joseph E. Stiglitz

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Discussions of freedom and liberty—and their relationship to the economic system—have moved up front and center

- Russian invasion of Ukraine
- Many on the Right have resisted mask and vaccination requirements as an infringement on their liberty
- Growth in libertarianism, especially in US
 - Partially reflecting a lack of trust in government and collective action more generally

Economists have long been engaged in debates about freedom and its relationship to the economic system

- Mills' *On Liberty*
- Friedman's *Free to Choose* and *Capitalism and Freedom*
- Hayek's *The Road to Serfdom*

Claim of Hayek and Friedman was that

- “Free markets” and “free enterprise” were the best way to promote economic wellbeing *and* individual freedom
- There were moral justifications behind market-driven distribution—the theory of just deserts
- Essential for maintaining political freedom

Each of the claims is suspect

- Terms like “free markets,” and “free enterprise” are used deliberately to bias the discussion
- Advances in economic theory and experiences with neoliberalism over the past forty years have exposed the limitations in these earlier analyses, and suggest an alternative economic framework that does better in enhancing individual freedom, political freedom and societal well-being
- Important for progressives to reclaim the “freedom agenda”

Outline of talk

- I. The meaning of freedom/liberty
 - A. Basic Concepts
 - B. Tradeoffs: one person's freedom is often another's "unfreedom"
 - C. How good regulations—some coercion—enhances freedom
 - D. The desirability in a free society of progressive taxation
 - E. Critique of moral and efficiency arguments of Hayek and Freidman
 - F. Social cohesion and the internalization of externalities
 - G. The importance of a democratic media
- II. What kind of an economic and political system delivers freedom?
 - A. The failure of neoliberalism
 - B. Progressive capitalism as an alternative

Broad economic perspective

- Liberty is about a person's *freedom* to act.
- Changes in a person's opportunity set—the set of options available—affect a person's freedom to act.
- Any reduction in the scope of actions that can be undertaken is, in this sense, a loss of freedom.
- From the perspective of an economist, the language surrounding this loss makes no difference.
 - All that matters is the set of available options from which the individual can choose.
 - Labeling something as an “incentive” or describing a regulation as a fine doesn't change reality
 - But note: behavioral economics (discussed below) suggests it *may* make a difference

For any society to function, there must be regulation and collective action

- Ten Commandments were a simple set of regulations

But this is even more necessary in a complex modern, knowledge-based, urban economy

- **One person's freedom can be another person's "unfreedom"**

Or as Isiah Berlin put it:

"Freedom for the wolves has often meant death to the sheep."

- Economists refer to these as externalities, and they are pervasive and ubiquitous

Conflicts of freedoms

- Right to carry a gun threatens another person's right to live
- Right not to get vaccinated or wear a mask threatens others' right not to get a disease, or even to live
- Right to pollute threatens others' rights to live a healthy life

In each of these cases, society has to make judgments

- In each of these cases, I believe most would agree on how these “liberties” should be balanced

Similar trade-offs are pervasive: *Freedom and Distribution*

- Libertarians/conservatives argue that taxation is a deprivation of liberty—of the right to spend one's money as one pleases
 - Claim: Taxation is coercion, even when there is some form of representation
 - (“Taxation without representation is tyranny”)
 - Taxation constricts the individual's budget constraint, constraining what he can do, his opportunity set

Expanding opportunities

Redistributive tax and expenditure policies expand the opportunity set of others

- In a society with a fixed amount of resources, expanding one individual's budget constraint—enhancing the freedom to spend—necessarily entails constraining others'
- Expanding opportunities by providing health and education to the poor can expand their opportunity sets far more than it contracts the set of those being taxed—enabling them to more nearly live up to their potential
 - Perspective consistent with that of Amartya Sen in *Development as Freedom* focusing on interventions that expand individuals' capabilities, and thus their opportunity set, their freedom to act
- There are externalities associated with inequality: It undermines economic performance (see, e.g. Stiglitz, *The Price of Inequality*)

Some coercion can be freeing for everyone

- Cities couldn't function without traffic lights—there would be gridlock; no one would have the freedom to move
 - Traffic lights represent a little coercion—taking turns
 - In doing so, they increase everyone's freedom to move
- The argument is more general: Public goods (like basic research, investments in infrastructure, and education and health) can expand the opportunity sets for all
 - They have to be financed
 - In the case of pure public goods (like knowledge), there are incentives to be free riders
 - Need coercion—forcing people to pay
- With such coercion, everyone's opportunity can be expanded—in a sense, the “freedom to act” has increased
- **Coercion can enhance freedom**

Sometimes coordination involves very little (or no) sustained coercion—with enormous benefits

- Driving on the right (or left) side of the road
- Without coordination there can be a disaster
- Once the rules are set, easy to sustain

Exploitation and freedom

- Un and underregulated markets are marked by exploitation, even when there is a high level of competition, but even more so when competition is limited
 - Exploitation of market power and of the vulnerable and imperfectly informed
 - Exploitation further undermines claims of the efficiency of (unfettered) markets
- Again, a trade-off: The right of corporations to exploit vs. the right of others not to be exploited
 - Exploitation of market power by monopolist constrains consumers' opportunity
- Broad consensus that exploitation should be constrained
 - In spite of loss of "liberty" by monopolist
- Both moral and efficiency grounds
 - Particularly evident in extreme cases (monopolist has control over something necessary for life itself)

Seemingly non-coercive ways of altering behavior

- Modern behavioral economics explains that behavior may be more effectively affected by changing beliefs, perceptions, and preferences than by changing constraints
 - Inducing individuals not to litter: “the right thing to do”
- “Socialization” (the social formation of preferences to be “other-regarding”) can also induce individuals to internalize externalities
 - To the extent that a social order succeeds in doing so, there may be less need for seemingly more coercive public interventions to regulate externalities (though, to be sure, some would argue that the social pressure itself is coercive)

Peer pressure and social sanctions as social coercion

- Social sanctions or peer pressure can also be viewed as imposing constraints on freedom
 - Harder to assess what to do about it—or even whether something should be done
 - Though we see how they affect an individual’s perceived freedom of action, the societal changes required to expand individual freedom involve changes in mindsets
- Social coercion vs. social cohesion
 - Perhaps analogous to weak distinction made earlier between “fines” and “incentives”—all that matters is change in opportunity set
 - Is this, at least in some instances, a distinction without a difference?
 - When social coercion is directed as internalizing externalities, both alter behavior in a pro-social way

Freedom, the media, and economic and political power

If perceptions, beliefs, and preferences can be altered by the media, then society faces an important set of decisions

- Who gets to control the press—and gets to control, or at least shape, societal meta-narratives, with a loss of *effective freedom* on the part of others
 - Should it be based on wealth? Enabling the wealthy to advance (through economics and politics) their interests
 - Further constraining the “freedom” (choices) of others
- What regulations should be imposed on the media, including the social media, to prevent, or at least reduce, social harms?
 - Restrictions that affect virality
- In each of these cases, there are trade-offs, no absolutes

But I suspect that constructing “the good society” would entail more regulations and less ability of the wealthy to dominate in the shaping of beliefs and preference

Tolerance—a key Enlightenment idea and ideal

- Central in earlier perspectives was that one person's *views, beliefs* about what is desirable or good should have no bearing on what is allowed, encouraged, or discouraged.
 - Only actions should matter (at least as for public policy) and only actions that *directly* adversely affect others (not actions that others might disapprove of)
- The Right, at least in the United States, has repudiated such notions of Enlightenment tolerance (as they have walked away from other Enlightenment values)

II. Neoliberal Capitalism and Freedom

Friedman and Hayek's views that capitalism enhanced individual freedom were flawed both because their analysis of individual liberty in an interdependent society was flawed, and their understanding of economics was even more flawed

- Unfettered markets are not competitive or efficient (or stable)
- Maximizing shareholder value does not maximize societal well-being
- They underestimated or ignored a host of market failures (externalities, imperfections of information, incomplete markets, etc.)
- Underlying model of the individual was flawed—well defined, fixed preferences, rational and perfectly selfish well-informed individual

Friedman's view of economics was wrong

Friedman, the apostle of free markets, claimed they were efficient and enhanced freedom, e.g. in his book *Free to Choose*

- Those with limited income are *not* free to choose
 - They do what they can to survive
- Unbridled capitalism that these ideas gave rise to is perhaps better described by *Free to Exploit*

Hayek's evolutionary theory

Hayek's evolutionary approach is equally flawed

- Claim was that the dynamics of markets, the evolutionary process, would lead to better outcomes, a wealthier society
- But claim was simply an assertion, not based on any economic analysis
- There is no teleology in evolutionary processes
 - There is *no* presumption that they result in the overall long-run dynamic efficiency of the economy—quite the contrary

Neoliberal capitalism may not even be a sustainable institutional arrangement

- It is not environmentally, socially, politically, or economically sustainable
 - Environmental effects are now evident
- With government oversight, competition won't be sustained
- The divides it gives rise to make it politically unsustainable
- The divides it gives rise to weaken trust, and without trust, a market economy can't function
- It encourages individual traits which also undermine trust, and thus undermine economic sustainability
- Neoliberal capitalism is a system which may devour itself

Critical questions:

- What kind of society (economy) most likely to enhance the “freedoms” of most citizens?
- What kind of society (economy) most likely to sustain political freedom and democracy?

Neoliberalism argued that *freeing the economy* (stripping away regulations, reducing the size of the state, giving full reign to unfettered markets) would lead to high growth; trickledown economics ensured that benefits would be shared by all

- Forty-year experiment has led to lower growth and more inequality, with those at the bottom in many countries seeing real incomes fall
- Disillusionment has understandably led to growth of populism
- Setting us off *on the road to fascism*

Progressive Capitalism and Freedom

- There are alternative ways of organizing society that can do a better job of enhancing freedom—progressive capitalism (or a rejuvenated social democracy) (described more fully in my book *People, Power, and Profits*)
- With a better balance of market and State (collective action), with a rich ecology of institutions (including cooperatives and not-for-profits, and government provision of a “public option”) and forms of collective action (unions, civil society, class action suits)
 - Most successful US institutions are not-for-profit universities and research institution
 - Emblematic of for-profit educational institutions is Trump University

Greater efficiency and equity—more “freedom to choose”

- As a result of doing a better job at reducing negative externalities through better regulation, investing in public goods, and correcting other “market failures”
 - Externalities and public goods are especially important in 21st century economy—high level of urbanization, a knowledge economy
 - **Other important “collective” roles**
 - **Limiting a variety of forms of exploitation**
 - **Providing social insurance**
 - **Better risk management enables more risk taking, more innovation**

Shaping individuals in a different way

- Current economic system shapes individuals—to be greedy, selfish, with limited concerns for others, less empathy and less honest than we might like
 - Cooperatives may help shape individuals to be more cooperative, other-regarding, and to enhance social cohesion
- With such other-regarding behavior and greater social cohesion, need for more obtrusive forms of coercion to deal with negative externalities is reduced

Centrality of liberal education and democratic media

- Education and better understanding of the way our preferences are shaped and our actions are affected by peer pressure can be “freeing” – one of the purposes of a liberal arts education
- More democratic media “frees” us from having our beliefs shaped by and for the interests of the wealthy

Difficult philosophical problem

- With endogenous preferences economists' standard individualistic welfare framework breaks down
 - Which preferences (utilities) are we supposed to be maximizing?
 - Positivist framework, with a focus on Pareto efficiency, has been at center of normative analysis for a century
 - Discussion of Pareto efficiency enabled economists to avoid interpersonal utility judgments or judgments about what makes for a good society
 - Made economics a more technocratic subject
 - Though in practice, economists had to go beyond this framework
- **Recognizing endogeneity of preferences forces us to make judgments about trade-offs (do we care more about enhancing the wellbeing of the poor than constraining the wellbeing of the rich?) and consider what we mean by a good society (do we want our children to be selfish, greedy, and dishonest?)**

Concluding comments

With greater investments, including in public goods and individuals' capabilities, better management of negative externalities, better social insurance, and stronger social cohesion, progressive capitalism can enhance individual freedom far more than the kind of unfettered capitalism that Hayek and Friedman advocated

- Doing a better job of creating the “good society”
- Setting us more firmly *on the road to freedom*