

discrimination. Libertarians think that a genuinely free market *punishes* discrimination (see question 60), and so a market will tend to correct the problem over time.

However, many libertarians say there are limits in principle to the right to discriminate against minority job applicants or customers. It's one thing if we face discrimination here or there from time to time. However, suppose discrimination becomes extremely pervasive. Many libertarians believe that property rights—including the right to run our businesses as we see fit—can be justified only if they systematically benefit everyone who is asked to respect those rights. If property rights end up systematically leaving some people behind, it may be unreasonable to demand that those left behind respect those property rights. Some libertarians argue that in these cases, in order to preserve the legitimacy of the system of property rights as a whole, we may be required to forbid private business discrimination.

6

ECONOMIC FREEDOM

62. What economic rights do libertarians believe we have?

We have a general right to conduct our financial and commercial affairs as we see fit, without having to justify ourselves or answer to society at large. Just as recognizing religious liberty requires the general protection of independent activity in the religious realm, economic liberty requires the general protection of independent activity in economic matters.

Libertarians claim that, as a matter of basic justice, people have the right to acquire, hold, use, give, and in many cases destroy personal property. They may decide what to eat, drink, and wear and determine what kinds of entertainment and cultural experiences they will consume. They may acquire wealth for themselves or for others. They have the right to enter into a wide range of contracts for the exchange of goods and services. They may enter into and negotiate employment contracts (including wage rates, hours worked, working conditions, and so on) as they see fit. They may decide for themselves how to balance leisure and work. They may choose to join unions or not. They may manage their households as they see fit. They may create things for sale. They have the right to start, manage, and stop businesses; to sell franchises in such businesses; and to run such businesses for their own private ends in the way they regard as best. This includes the right to form certain kinds of joint ventures, including certain kinds

of corporations and workers' cooperatives. People may own private productive property, such as factories or machinery, and develop property for productive purposes. They may acquire, lend, take risks with, and profit from capital and financial instruments. They have the right to determine their own long-term financial plans, including retirement saving and investments in certain forms of insurance. Libertarians even believe that people have the right to sell sexual services or their own body parts, such as kidneys.

Libertarians believe economic liberty is a fundamental or basic human right, morally on par with the rights of free speech or freedom of conscience. Libertarians believe that each person has a robust and extensive set of economic liberties.

Some anti-libertarians believe that if people have such extensive economic rights, then a large percentage of people will end up living poor and miserable lives. These anti-libertarians believe that markets create winners and losers. They believe that to ensure that the worst off lead decent lives, we must greatly constrain the scope of economic liberty.

63. Are libertarians only concerned about economic issues?

No. Libertarians advocate giving everyone increased sovereignty over all aspects of their lives. Yet when they protest wars or fight in favor of gay marriage, they blend in with others. When libertarians defend markets, they stand out. This may create the misimpression that libertarians only care about economic liberty.

64. Why do libertarians think economic freedom is important?

Libertarians believe economic freedom is necessary if people are to be authors of their own lives. If we are to respect people as self-authors—as people who have the right to write their own stories—we need to afford them wide latitude to choose for themselves. The neoclassical liberal philosopher John Tomasi argues, “Restrictions of economic liberty, no matter

how lofty the social goal, impose conformity on the life stories that free citizens might otherwise compose” for themselves.

Libertarians think we need economic freedom to respect human diversity. We are not all the same. There's no one way of life that's best for all. Economic freedom empowers each person to pursue her own conception of the good life.

In life, we face difficult questions: How should I make trade-offs between work and leisure? What career should I pursue? Should I take a loan? Should I run a business? Should I invest? Under what terms? What makes for a meaningful life for me? These questions are deeply personal. Libertarians say we must not treat people like children. We must not subjugate them and answer these questions for them. Instead, we must give everyone wide latitude to decide for themselves. The economic liberties and of property rights empower people to act upon their own conceptions of the good life.

Left-liberals agree with libertarians that the civil liberties are important. Yet they do not see why most economic liberties could matter for a person's sense of self. Some left-liberals want to protect citizens from economic decisions, much as I protect my four-year-old. Libertarians want to empower people to make these decisions for themselves.

Libertarians say that controlling one's own economic decisions is part of what it means to be the author of one's own life. Tomasi asks us to put ourselves in the shoes of Amy, owner of Amy's Pup-in-the-Tub in Warren, Rhode Island. Tomasi says to the left-liberal: You understand why an artist can find meaning in life when she finishes a painting. You understand why a philosopher can find meaning when she writes a treatise. If so, then you should also understand what it means for Amy to run a business by her own entrepreneurial vision.

Libertarians believe freedom of commerce under the rule of law empowers people to cooperate on a massive scale, liberating each other from poverty. Ten thousand years ago, everyone everywhere was poor. For most of history, most people lived on less than a dollar per day, on what the UN would

describe as extreme poverty. The average person is about 30 times richer now than in 1800. Measuring GDP in constant dollars, the United States today has an economic output that is about 50% greater than the entire world's output in 1950.

We did not become rich by adjusting marginal tax rates. We became wealthy by unleashing human ingenuity. What happened? Economist Deirdre McCloskey says: Once we were all poor. Then capitalism happened, and now, as a result, we're rich. Libertarians say: Even Marxists have to be thankful for markets in some sense. As a matter of fact, the working class enjoys prosperity and positive liberty in market economies, but almost nowhere else.

Libertarians argue that if we want people to be secure, certain economic decisions must not be left to democratic deliberation or bargaining. For instance, imagine everyone got to deliberate and vote on what career *you* should pursue. You would feel oppressed, not empowered. Democratic decision making does not imbue people with control over their own lives; it strips them of it. When you vote with others as an equal, your vote makes no difference. Libertarians thus want to insulate people from political bargaining. Economic liberty and private property means they ask others' permission to lead their own lives as they see fit.

65. Why do libertarians believe property rights in particular are important?

Property rights are useful the way traffic lights are useful. At a crowded intersection, we need to know who goes first. We solve that problem by saying whoever has a green light gets to go. That might seem unjust. After all, the person with the red light might be more deserving or needy. However, imagine if every time we came to an intersection, we had to stop, rank everyone by need, and then let the neediest go first. The system would distribute right of way according to need, and yet it would almost never actually help the needy.

Without property rights, the question of who gets to use what becomes a constant political battle. Society is a kind of traffic. Property rights make that traffic run smoothly.

Property rights solve problems. We can see what problems they solve by examining what happens without them.

Imagine that some resource is left in the "commons." Everyone is free to use it, but no one owns it. For example, suppose 10 shepherds, each of whom has 10 sheep, use a common pasture. Let's say the sheep are worth \$100 each on the market. The total economic output of the land is \$10,000 per year.

Suppose the pasture can sustain 100 sheep indefinitely, but if there are 101 or more sheep, the pastures starts to die and turn to dust. Now suppose a shepherd experiments with adding an 11th sheep to his flock. There now isn't enough grass to feed all the sheep. Each individual sheep is worth \$95 instead of \$100. Yet, for the shepherd who added an 11th sheep to his flock, this is still a good deal. His flock of 11 sheep is now worth \$1,045 instead of \$1,000.

However, think of the other shepherds. Their flocks are now worth only \$950 instead of \$1,000. They will probably try to recover their losses by adding sheep, too. And so, the pasture is doomed.

The ecologist Garrett Hardin dubs this phenomenon the "tragedy of the commons." When no one owns a resource, people have little incentive to maintain it. Worse, they have an incentive to extract as much value as they can from it before others do. So, it's no surprise that fishermen are destroying ocean stocks.

Or, consider that certain societies have experimented with the following rule: Whenever anyone bakes a pie, hunts a deer, or grows some beans, everyone is entitled to an equal share. Many societies that experiment with this rule—such as the Jamestown colony or early Mormon settlements—starve and then abandon it. In practice, when people live by that rule, few people work. No one wants to bake a pie when he gets only one bite and his neighbors get the rest. In practice, "everyone

gets an equal share" is often equivalent to "everyone gets no share."

66. How do libertarians respond to the Marxist worry that property rights are "merely formal"?

A penniless beggar has the right to buy bread, but that won't feed him. Marxists say legal property rights are "merely formal." Marxists conclude formal property rights are worthless without guarantees of wealth.

A libertarian might respond that from the armchair, the Marxist worry sounds right. But, libertarians respond, what if we treated it as a testable empirical claim? What happens when "merely formal" property rights are secure, and what happens when they are not?

The economist Hernando de Soto says that in the West, we find pockets of poverty. In the rest of the world, we find pockets of wealth. What explains the difference? De Soto says that the poorest of the world's poor possess roughly \$10 trillion worth of land. Yet they do not own this land the way westerners do. In countries like Peru or Egypt, most people lack formal legal titles to their land. Most people do not have or work in legally recognized businesses.

De Soto researched what it would take for the poor to acquire property rights in their land or to acquire legal recognition of their businesses. In Egypt, for instance, he found the process would take six hours a day for a year, and cost more (in fees and bribes) than the average annual income.

De Soto argues that the lack of formal property rights is one of the main reasons the world's poor stay poor. A westerner can mortgage his land to start a business. His counterpart in Peru cannot take his land to the bank. A westerner can trade with anyone around the world, secure in his ability to recover damages if someone breaks a contract. His counterpart in rural Peru can only trade with people he knows personally. The person who would start a chain of Peruvian restaurants

in northern Virginia runs a food cart in Lima. The food cart operator has no police protection for his business and no recourse to courts to settle disputes. He lacks the legal means to sell franchises or to post share offerings on a stock exchange; indeed, he cannot even raise capital for a proper building with a proper kitchen.

De Soto concludes that Marxists are half right and half wrong. Formal property rights are not a panacea, but without them the world's poor have little hope of raising themselves out of poverty. Formal property rights do not guarantee prosperity for all, but, then, nothing does. However, there is no history of people being prosperous without such rights.

67. Do libertarians think property rights are absolute?

Rights impose duties. For instance, my right to life imposes a duty on others not to kill me.

Sometimes moral duties can be overridden by other factors. For instance, if I promise to meet you for dinner at 6 p.m., then I should be there on time. Yet, suppose I find a helpless lost child on the way to dinner. My obligation to help the child can override my duty to meet you on time.

Absolute rights, by definition, cannot be overridden. Thus, suppose my property rights were absolute. Now imagine you are walking in the street by my house. Suddenly a drunk driver swerves toward you. Suppose you can dodge out of the car's way only by jumping onto my land, without my permission. If property rights were absolute, it would be wrong for you to dodge the car.

Most libertarians deny property rights are absolute. Most accept that in the aforementioned example, you may jump on my lawn without my permission.

Libertarians believe that property rights, like other rights, are weighty, but not absolute. Rights can be overridden, but not for just any reason. You can trespass on my land to dodge a car, but you can't have a picnic there whenever you please.

Libertarians argue that we should not override property rights just because overriding them here or there would be more useful or efficient in single instances. If people can't count on their property rights, they can't make stable long-term plans. If people know their property rights can be overridden whenever society deems it useful to do so, they then cannot trust the property system anymore. (Similarly, try to imagine a world in which individual promises could be broken whenever doing so would be slightly more useful than not. In that world, there would be little trust.)

Also, libertarians say, to serve the common good, be careful empowering governments to override property rights in the name of the common good. When given such power, governments may pay lip service to the common good and then use the power mostly to serve the privileged elite. For instance, in the United States, governments use the power of eminent domain to kick the poor out of their homes to make way for big box stores and sports team owners.

Some critics of libertarianism respond that while the government does sometimes abuse eminent domain to help the wealthy, it usually uses it to provide needed infrastructure or public housing.

68. Why are libertarians so concerned about economic growth, prosperity, and wealth?

The Marxist philosopher G. A. Cohen once argued that money is like a ticket. The more money you have, the more tickets you have to do things.

Wealth thus tends to increase positive liberty. (See question 14.) Positive liberty is the power to achieve one's ends. For instance, when we say a bird is free to fly, we mean that the bird has the power to fly.

For most of us, increased wealth means the increased power, capacity, or ability to do as we please. Wealth liberates. Wealth enables us to lead more authentic lives. Wealth makes us better

able to pursue and realize our conceptions of the good life. For instance, had I been born into a poorer America a century ago, I would not have been able to pursue my dream of becoming an academic. I would have worked instead in a textile factory.

Wealth also tends to make us happier. Economists Betsy Stevenson and Justin Wolfers have shown that people's happiness and satisfaction strongly correlate with their absolute levels of wealth. (Stevenson's and Wolfers's data come from the 2006 Gallup World Poll, which surveyed 130,000 people from 100 countries.) As Nobel laureate psychologist Daniel Kahneman summarizes, "Humans everywhere, from Norway to Sierra Leone, ... evaluate their life by a common standard of material prosperity, which changes as GDP increases."

Libertarians think we need economic growth to maintain a "positive-sum society." In a positive-sum society, everyone can become better off at the same time. A stationary or no-growth economy is a zero-sum society. In a zero-sum society, you can become better off only if others simultaneously fall. When there is no economic growth, for you to get an extra \$10,000 to pursue your own projects, others have to lose \$10,000. Libertarians advocate a society in which others' talents are a boon to us, not a threat. Yet without economic growth, we tend to look upon each other with envy and suspicion.

69. Why do libertarians support markets?

Liberal market societies do not offer guarantees. But, libertarians say, market societies offer something better: results. Critics of market society say the formal freedom that liberal society guarantees is not enough. Real freedom, they say, is a matter of what workers can *do*, not what others can't do to them. Libertarians respond that this real freedom is found in market society and almost nowhere else.

Libertarians believe a free market means free people. To say a market is unfree is to say someone stops other people from making voluntary, mutually advantageous trades.

Commerce is implicitly an egalitarian idea. In commerce, no one commands and no one obeys. A tyrant can force subordinates to follow his commands. But under normal conditions, a shoemaker cannot force any customers to trade with him. To profit in a free market, one must induce others to trade voluntarily. No one is obligated to accept the terms of trade. The legitimacy of a transaction depends on whether everyone consents.

This means, as Adam Smith realized, that for me to benefit from market exchange, I must benefit others. To get bread from a baker, I must give something he wants in exchange. This desire for profit keeps the market in alignment and coordinates everyone's activities.

Markets push agents to anticipate the results of their choices. Markets reward people who create value for others with profits. They punish people who destroy value for others with losses.

Markets decentralize decision making, giving each agent the power to buy and sell without having to ask permission. They thus enable individuals to cooperate with one another on a massive scale without having to debate or settle on questions of value. Markets enable people to experiment—to practice and try out different alternatives. Markets also provide a large range of alternatives. We can create our own niches and live as we please, by our own conceptions of the good life, provided we respect others' ability to do the same.

70. Why do libertarians support free trade between countries?

Economists have long said there is usually no stronger of an argument to restrict trade between countries as there is to restrict trade between individual cities or between individual people within the same country. Trade is trade. It makes as much sense to protect America from China as to protect New York City from Newark.

Should the government use quotas or tariffs to make us buy domestic goods? Libertarians respond that one reliable,

if imperfect, test that something is a positive-sum game, or at least not a negative-sum game, is this: If given a choice, do people want to play it? If we have to chain people to the bargaining table to keep them from walking away, then we have to suspect we're not playing a game everyone can win.

Many people assume free trade helps the rich at the expense of the poor. In contrast, libertarians think protectionism protects the well connected, not the poor. When Adam Smith wrote *The Wealth of Nations*, England had tariffs and restrictions on linen imports. Lawmakers claimed these tariffs benefited everyone. However, Smith found, only the final weaved products fetched much profit. The poorest workers—female spinners who produced the basic threads—made nothing off of the tariffs. The tariffs limited their market and kept the price of the yarn low. This helped factory owners, not poor spinners. Also, by restraining trade, clothing manufacturers kept the overall price of clothing higher. Smith asked: When linen prices are high, whom does this hurt the most, the silk-wearing rich who own clothing factories, the professional middle class with disposable income, or the poor?

Smith observes that specialization is one of the main secrets of prosperity. When individuals specialize, they become more productive. They can trade with one another, allowing everyone to become richer than if they had tried to be self-sufficient.

The size of the market determines the degree of specialization. On an isolated farm, a farmer's family has to do just about everything that needs doing. They can buy their tools in the village perhaps, but they do the rest themselves. In a village, a person can make a living as a carpenter, repairing a farmer's axles, wheels, wagon bed, or roof; carving a yoke for oxen; and doing just about anything a farmer needs that requires wood-working skills. In a city servicing a national market, a carpenter can specialize in manufacturing ax handles, or violins. In a commercial port serving a global market, a company can hire a staff of carpenters.

The goal of being self-sufficient often leads to war. Imagine you decide to be self-sufficient. You refuse to buy from others. Now suppose you need oil (or anything else your little plot of land doesn't supply). If you don't have oil under your lawn, and if you refuse to buy it from others, then your only option is to seize it through force. And so, throughout history, when nations decide to become "self-sufficient," they always build empires. If goods cannot cross national borders through trade, then they must be incorporated into one's borders through war.

When we trade with others, we are not self-sufficient in the sense of creating everything we need for ourselves. We do very much depend upon others. However, Smith thought, interdependence is not dangerous. David Schmidtz summarizes: In Smith's view, on a free market, we are "dependent on many, [but] at the mercy of nobody."

71. Are libertarians just trying to protect the interests of big business?

What does it mean to be pro-business? We often think of pro-business politicians as giving out subsidies, privileges, and special contracts to large corporations, taxing the poor to give to the rich. Libertarians oppose all such activities. Adam Smith and the other classical liberals were the first and still are the most consistent defenders of the view that government should not support business. For them, being in favor of the market means letting it be rather than trying to prop up industry through government handouts. For them, being in favor of markets means letting markets punish corporations for bad decisions. If GM can survive only with government handouts, libertarians say let it die.

Many critics believe libertarians are "in the pocket" of big business. Libertarianism sells itself as a philosophy of freedom. But, critics say, in practice, libertarian freedom is just freedom for corporations with servitude and poverty for everyone else.

Critics claim that libertarian policies would benefit the powerful corporations at the expense of everyone else. Libertarianism would guarantee that an elite few capture most wealth, while the common person is left behind. Libertarianism, the critics say, is a recipe for brewing robber barons.

Critics expect libertarians to respond by saying, "If economic freedom leads to monopoly, corporate dominance, and poverty for the masses, so be it. That's the price of freedom." This is not libertarians' response.

Libertarians respond to their progressive critics, "Runaway corporatism is *your* fault. You may claim to oppose big business and crony capitalism. However, when in power, whether intentionally or not, you support big business at the expense of the common person."

Progressive politics enables the government to choose winners and losers in the economy. When a government is empowered to choose winners and losers, the well-connected will be the winners.

Libertarians claim that through the Democratic Party, the moderate Left has held significant power in the United States for 80 years. Democrats empowered the federal government to regulate the economy in order to control and restrain corporate power. However, libertarians claim, corporations and the financial elite have captured that very power for their own advantage.

Imagine you lived in a bizarre, magical world, in which every time you tried to increase the power of the police to fight violent crime, violent criminals magically seized that very power and became even more violent. In that kind of world, you would not want to give the police more power. In that world, if you spent 80 years giving the police more power, you would in turn be to blame for crime. Libertarians say that when it comes to regulating corporate power, we live in precisely this bizarre, magical world.

However, it is not magic. Rather, the mechanisms that explain the rise of corporatism and crony capitalism are well

understood. One just needs to study a branch of economics called *public choice economics*. Public choice economics, developed by Nobel laureates James Buchanan and Kenneth Arrow, as well as Gordon Tullock, Anthony Downs, and Mancur Olson, applies the insights of microeconomics to understand and explain political behavior.

Both libertarians and most of the Left oppose corporatism and crony capitalism. The Left says, "Corporations have too much power. Let's increase government power over corporations." Libertarians say, "Corporations have too much power. Let's decrease government power over corporations." Libertarians admit that their solution, on its face, looks absurd. However, they claim that when we increase government power over corporations, corporations in turn capture that power to benefit themselves. To increase government power over corporations is to increase corporate power.

Libertarians say: Are corporations too powerful? The power to regulate the economy is the same thing as the power to distribute favors. When we create government agencies with the power to control the rules of the economic game, corporations will compete to lobby for, purchase, and control that very power. The more unscrupulous the corporation and the more it has at stake in controlling the agency, the more it will spend to get control. It is no accident that there is a set of revolving doors among the Obama administration and Goldman Sachs. (For example, Obama's chief of staff for the US Treasury is a former Goldman Sachs lobbyist. The deputy director of the NEC is a former Goldman Sachs analyst. Obama's undersecretary of state of economic, business, and agricultural affairs was a former vice president at Goldman Sachs. Incidentally, Goldman Sachs was Obama's second-largest campaign donor in 2008.)

Consider: Why does American Coca-Cola have corn syrup when Mexican Coca-Cola has sugar? The reason: The corn lobby is powerful in the United States. The US government subsidizes corn and other cereals, feeding nearly \$3 billion to large

agribusinesses such as Archer Daniels Midland. The Energy Policy Act of 2005 guarantees a market for corn by requiring (corn-based) ethanol to be added to gasoline. The United States also imposes a tariff-rate quota on foreign-produced sugar. Libertarians note that subsidies favor big business. The government distributes farm subsidies on the basis of crop and crop size. Factory farms get larger subsidies than family farms.

The United States does not have, and has never had, a free market. Instead, it has always had a market in which Congress and the White House can pick favorites at the expense of everyone else. The nineteenth century was no economic libertarian utopia. Instead, the United States imposed heavy tariffs on foreign goods in order to protect domestic corporate interests. Railroad companies enjoyed heavy subsidies, special privileges in the seizure of land, and monopoly protection. (By the early twentieth century, nearly every transcontinental railroad subsidized by the US government went bankrupt, while the only unsubsidized railroad prospered.)

The progressive Left often complains that corporations are too big. However, libertarians say, the Left's favored policies distort the market in favor of larger and larger corporations. The more we regulate the economy, the bigger big business will tend to be. Complying with regulations costs money and time. The larger your company is, the more easily you can keep up with the rules. The US Small Business Administration (SBA)—a government agency—reports that complying with all regulations costs firms on average \$10,585. However, these costs are not evenly dispersed. The SBA claims that small businesses face about 36% higher costs than large businesses. Previous studies have estimated that it costs small firms 60% more than large firms to comply with federal regulations. Or, consider that when governments require employers to provide health care and other benefits, this is much more costly to small firms than large corporations. Or, consider why drug companies have to be big. With current FDA regulations in

place, it takes on average 12 years and a billion dollars to bring a drug to market in the United States. How could anything other than a huge pharmaceutical company survive in this environment? Complicated tax codes, regulatory regimes, and licensing rules naturally select for larger corporations. Regulations, tax codes, and licensing rules are like a regressive tax that disadvantages the small.

The progressive Left often complains that financial firms and large banks take too much financial risk. The Left believes this is because managers are irrational and greedy. Libertarians say that no doubt, some are. Still, part of the story has to be that the government incentivizes what would otherwise be irrational behavior. The Clinton administration wanted to increase home ownership in the United States. The government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac were instructed to buy ever more risky mortgages from banks. To comply with the Community Reinvestment Act, the GSEs and banks had to provide loans to lower-income borrowers with lower down-payment and capital requirements. Banks had strong incentives to write loans to risky clients, knowing they could then sell these loans to the GSEs. Finally, the government has in the past repeatedly bailed out large corporations. This means that corporations expect bailouts and act accordingly. As left-leaning economist John Galbraith says, "Roughly speaking, if you are in trouble and big enough, you will be rescued and recapitalized in one way or another by the government." If the US government commits to bailing out Wells Fargo, then the market responds by creating more Wells Fargos. As long as a corporation is large enough and well connected, it can socialize risk but privatize profits. We encourage banks to be large and to take more risks.

The progressive Left complains that large corporations bully private persons and small firms. However, a principal way corporations bully others is by getting local governments to seize property on their behalf. The governmental power of eminent domain allows governments to take private property

(after compensating owners) for public use. The purpose of this power originally was to allow governments to build needed public structures and provide public goods. However, in *Kelo v. City of New London* (2005), the US Supreme Court decided that seizing property for the purpose of economic development constituted public use. If a private developer can convince your local government that it can help the local economy, the developer may ask your government to take your property, shut down your store, or destroy your farm. The libertarian legal advocacy group the Institute for Justice tried to stop the *Kelo* decision and frequently provides pro bono services to the poor to help stop eminent domain abuse.

Libertarians think it is no anomaly that the Obama administration fed millions of taxpayer dollars to Solyndra. It is no accident that Amazon is now lobbying in favor of an Internet sales tax (which would disadvantage its competitor eBay). Released documents indicate that the now-defunct Enron lobbied for cap-and-trade regulations because they would hurt their competitors. Libertarians say all of this is to be expected. The US government has significant legal power over corporate America. Corporate America uses its influence and money to control that very power for its own interests.

Public choice economists call this phenomenon "rent seeking." "Rent seeking" refers to nonvoting, noncriminal activities that individuals or firms engage in with the purpose of either changing the laws or regulations or changing how the laws and regulations are administered, for the purpose of securing a benefit. A firm engages in rent seeking when it seeks to gain an economic privilege or advantage from governmental manipulation of the market environment. James Buchanan says, "If the government is empowered to grant monopoly rights or tariff protection to one group, at the expense of the general public or of designated losers, it follows that potential beneficiaries will compete for the prize."

Libertarianism offers a solution for corporate rent seeking. Crony capitalism and corporatism are like runaway

fires. Progressives want to increase government power over the market, but libertarians believe this is just throwing fuel on the fire. Libertarians want to kill the fire by removing the fuel. When governments can pick winners and losers in the economy, big business always wins. Libertarians say that if we minimize government regulatory power over the economy, then corporations will have no power to compete for, no rents to seek, no subsidies to enjoy, and no agencies to capture. They will be able to beat competitors only through open market competition, that is, by producing what consumers believe is the best overall package of products and services.

On this point, a libertarian might note that, according to Transparency International, New Zealand, Denmark, Switzerland, Australia, Hong Kong, and Canada each have less corrupt governments than the United States. At the same time, the conservative Heritage Foundation ranks the economies of these countries as freer than or at least as free as the United States. (Denmark scores very slightly lower because of its high tax rates. However, Denmark also rates 99.1 in business freedom, 90.0 in investment freedom, and 90.0 in financial freedom. In comparison, the United States scores 91.1, 70.0, and 70.0, respectively, on these measures.) Freedom from corruption and economic freedom are strongly correlated.

72. Why do libertarians believe socialism causes the worst to get on top?

In the twentieth century, Marxist governments were *deadlier* than the two world wars. In *The Black Book of Communism*, Stéphane Courtois and his coauthors document how in the twentieth century, *outside of war*, communist governments killed between 80 and 100 million of their own citizens. The rise of communist governments was one of the worst humanitarian disasters, ever.

Libertarians don't view command-economy socialism as a way of freeing or empowering the poor. They view it as a way

of helping the powerful run and destroy other people's lives. That may not be how socialists advertise themselves. But, libertarians say, there hasn't been an exception to that rule, yet.

Central planning requires a great concentration of great power. For a government to plan an economy, it needs to control almost everything. (Note that this spills over into how we can exercise our civil liberties. Want to publish a newspaper? That takes resources that the central planners control.)

When people compete for this power, bad people have an advantage. Someone like Stalin will do whatever it takes to get power, free of moral constraint.

Economist F. A. Hayek asks, why have Marxist revolutionary socialists succeeded in creating socialist states, while democratic socialists have never held power long enough to implement their plans? (Or, more precisely, when the democratic socialists do hold power, why do they fail to implement real socialism?) The democratic socialist's own values—such as liberality, rights, and respect for individuals—inhibit them from doing what it takes to make plans work. Revolutionary Marxists impose harsh discipline on themselves and others. They don't value individual life. They are willing to kill whoever stands in their way.

Central plans must be administered coercively. If you try to plan an entire economy all at once, you can't let people make their own plans, as capitalist societies do. You need everyone to do her part. You can try using carrots, but carrots leave people a choice. You'll have to resort to sticks instead.

Intellectuals do not make good central planners. Intellectuals are not single-minded. They challenge ideas. They disagree. Instead, central planners need to be those who tow the party line.

Liberal, democratic assemblies do not make good central planners. Liberal democratic assemblies may want to promote the common good. But, being democratic, they won't agree on just what that means or how to do it. They will disagree. They will make slow decisions. They'll get mired in gridlock and

will end up having to choose one person to have dictatorial power.

Hayek adds that central planning requires that people regard the plans as their own. So, it requires propaganda. For those who can't be controlled by propaganda, it requires something like a KGB. You'll need to spy on people to see who goes along with the plan and who doesn't.

73. Why do libertarians believe socialism fails to create prosperity?

Libertarians have no problem with communal property. For instance, most spouses share property. If people voluntarily wish to share property among an entire community, they should be free to do so. People have the right to form Kibbutzes or other communes. Libertarians just say that no one should be conscripted into these communities.

There is a difference between voluntary socialist cooperatives and large-scale socialist economies. Libertarians claim that state socialism cannot work on any large scale.

An extended economy requires that millions (and nowadays, billions) of people can coordinate their activities to produce a good outcome. It requires that people have the information to know what is best for them to do and also have the incentive to do it.

Markets coordinate billions of people without anyone doing the coordinating. Compare markets to the military. Armies have strict hierarchies. The commander-in-chief sets a goal. Generals plot strategies and deliver orders to lesser officers below them. In turn, orders spread, with increasing levels of specificity, down to the lowest private. Privates follow orders; they do not set their own goals. In contrast, in a free market, no one is a general. (Alternatively, we could say that everyone is a general. In markets, everyone is a planner or a strategist to some degree.) So how do markets hold together? How can there be order if no one is giving orders?

Following Nobel laureate economist F. A. Hayek, libertarians claim that a functioning economy needs three things:

1. *Information:* Something must signal to individuals what they need to do.
2. *Incentives:* Something must induce people to act on that information.
3. *Learning:* Something must correct people's mistakes and teach people to become better at responding to information and incentives.

Market economies serve these needs with three mechanisms:

1. *Information:* Prices
2. *Incentives:* Private property
3. *Learning:* Profits and losses

Libertarians say that it is possible to run an economy with prices, private property, and profits and losses. Certain small communities can get by without them. But large-scale economies cannot.

In a command economy, only a few people plan. In a market, everyone plans. When it comes to economic planning, 7 billion heads are usually better than one. Each person on the market has different information about the economy, about local opportunities and costs, and especially about her own wants and desires. For an economic system to function, this diffuse information must be conveyed to the planners. When economists say that prices are a function of supply and demand, they're saying that prices convey this diffuse information to the planners. In markets, prices are measurements.

When command economies set prices, prices don't measure anything. Artificial, government-mandated prices convey no information about scarcity or demand. Without real prices, planners cannot perform reliable economic calculations.

Without a price system, they can't reliably decide whether producing apples or oranges is more productive. How would central planners know whether to use plastic or metal shovels, gold or aluminum wire, or leather or canvas in shoes? (It requires that one hold in mind a precise inventory of the quantities and qualities of all the different factors of production in the entire system, together with full geographic knowledge and possibilities open to different locations, all at once, and be able to go through all the possible permutations.) The simple answer is they don't know, so they guess. And, so, they remain poor.

74. Why do libertarians tend to oppose government interventions into the economy?

Economists say government intervention can be justified, in principle, in order to correct market failures. Libertarians agree that markets can and do fail. However, libertarians think that market failures must be balanced against *government failures*. When governments are given the power to regulate markets or fix market failures, they often make things worse, not better. Libertarians think that once we account for government failure, we have much less reason to favor government interventions into the economy. (For a fuller account of this point, see question 36.)

Libertarians say that such government interventionism leads to crony capitalism and corporatism. Libertarians believe the progressive Left has caused corporate power to get out of control. (For more on this, see question 71.)

Hardly anyone now supports command economy socialism. Most recognize that central planning fails. Most recognize that central planning is inefficient and fails to produce prosperity. Most people recognize that planning an entire economy is impossible. (See questions 72 and 73.)

However, libertarians claim people do not recognize a related point. *Planning* a huge economy is impossible; economies are

too complex. *Managing* and *controlling* a market-based economy are thus extremely difficult, if not impossible.

Those who wish to regulate, manage, and control the economy regard it as a kind of machine. They view bureaucrats and central bankers as engineers and mechanics who keep the economic engine running smoothly.

Libertarians say that a market economy is not a machine. Rather, the market is an ecosystem. The Federal Reserve, politicians, and regulators are less like engineers tweaking an engine and more like park rangers trying to control a jungle. Just like a jungle, a market has a logic of its own. For instance, a regulator can dictate that it is illegal to hire an unskilled laborer at less than \$20 per hour. But a regulator cannot dictate that people will actually want to hire unskilled laborers at \$20 per hour.

Markets are *harder* to manage than jungles. Jungles have an internal logic and react in unforeseen ways when we attempt to control them. Still, a jungle just does what a jungle does. Markets, on the other hand, are populated by real people with plans of their own. Actors in markets play *strategically*. When regulators attempt to control them or influence them, market actors work to counteract or take advantage of the control and influence.

On this point, consider the work of economists Thomas Sargent and Christopher Sims, joint winners of the 2011 Nobel Prize in economics, and of Robert Lucas, winner of the 1995 Nobel Prize. Sargent, Lucas, and Sims developed a "rational expectations" theory in macroeconomics. Rational expectations theory says that, as a whole, market agents are not *systematically* wrong in their prediction of the future of the market. They make mistakes, but these mistakes tend to be random and to cancel each other out. (Note: Rational expectations theory allows for asset bubbles to occur.)

To the extent rational expectations theory is correct, many government interventions are doomed to fail. For instance, macroeconomics textbooks used to recommend that central

banks inflate the currency whenever there is high employment. The hope was that central banks could drive up prices by pumping newly printed bills into the economy. This would then “trick” employers into believing that effective demand for their products is higher than it really is. The duped employers would then want to hire more workers. Workers would accept normal wages, because wages tend to rise more slowly in response to inflation than many other prices. High unemployment would thus end. At least, that was the hope.

This kind of intervention works only if the central bank can trick employers and workers. Rational expectations theory says the bank cannot trick them. Rational expectations theory says we cannot predict ahead of time what employers or workers will think the real rate of inflation will be. Instead, rational expectations theory says that when the Federal Reserve inflates the supply of money, market agents tend to realize it's doing so. Market agents adjust their demand for currency accordingly. Employers do not want to hire more workers—as a whole, they know the Fed created the high prices. Employees want higher wages—as a whole, they know the Fed made prices go up. This means that the Fed cannot cure unemployment by printing dollar bills.

Finally, libertarians say, government interventions lead to more interventions. When governments intervene, regardless of the good they do, they also tend to produce unforeseen bad consequences. They then tend to intervene again to correct those unforeseen bad consequences. For instance, when cities set rent controls, this tends to cause a shortage of housing for the poor. This in turn pushes the city to have to build public housing. Or, libertarians say, US housing policy induced banks to take bad risks. (See question 92.) This led to a financial crisis, and that in turn pressured the government to have to pass an expensive economic recovery bill.

Some anti-libertarians say that libertarians are right that government interventions often fail. However, they claim, such interventions also often succeed and do a great deal of good.

7

SOCIAL JUSTICE AND THE POOR

75. *What is social justice?*

Social justice, or distributive justice, is a moral standard by which some people judge political and economic institutions. Advocates of social justice believe the moral justification of our institutions depends on how well these institutions serve the interests of the poor and least advantaged. The basic institutions of society must sufficiently benefit all, including the least advantaged and most vulnerable members of society.

76. *Do most libertarians reject social justice?*

“Hard libertarians” (see question 5) reject social justice. In their view, justice only requires that people respect one another's rights.

Hard libertarians tend to assume that a commitment to social justice entails a commitment to a welfare state that redistributes wealth. The hard libertarian philosopher Robert Nozick argues that we cannot ask *how* we should distribute wealth unless we have the *right* to distribute it. Suppose you find a lost wallet. Justice requires that you return the wallet to its owner. You shouldn't worry about what's the best way to distribute the money—the money is not yours to distribute.

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