

Is the Free Market Dead?

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The occasion of this talk was a panel discussion ending the conference on "Radical Politics" sponsored by The University of North Dakota's chapter to Students for a Democratic Society. Many of the members are self-described Marxists and Anarchists. It is they whom I address here.

In regards to the question, "Do recent financial events mark the death of free-market capitalism?" I will begin by answering as clearly and unequivocally as possible: no, it is not even close. The events of the last few months are neither unique nor all that surprising. They are unhappy events, for sure, and they will harm a great many people, but in the grand scheme of things they are but a bump in the road. They signal an occasion for both market and ideological correction, both of which will fall squarely within the practices and philosophies of capitalism.

The fact of the matter is that we are all capitalists and while some of us may be attracted to Marxism, Anarchism, or other ideologies, these are largely reactions to particular injustices but are not a rejection of our economic system as a whole. We all recognize the iPod as "ours," we have no wish to regard our underwear as communal, we tend to think of our body as our "property" to do with what we wish, and we think of marriage as contracts. We are capitalists. We believe in the sanctity of property rights and in the possibilities of the legitimacy of transfer – there are moral and immoral ways to give and receive things that are ours.

No anecdote better illustrates this than the recent actions of UND's chapter of *Students for a Democratic Society*, the host organization of this panel. In September, when faced with the question of what their first priority would be, they chose a campaign to pressure the UND administration to sell products that fulfill the standard now being called "fair trade." No sweatshop production, but living wages and hospitable working conditions must describe the production end of whatever sweatshirts, water bottles, notebooks, and other such paraphernalia sport the UND brand name.

SDS, as many people in this room know, is a group founded in the 1960's to further voter registration, challenge the hostile values of the cold war, and further the goals of what they called "participatory democracy." Their founding philosophy, the eloquent and powerful *Port Huron Statement* released in 1962, read in part:

"We are people of this generation, bred in at least modest comfort, housed now in universities, looking uncomfortably to the world we inherit.... As we grew, however, our comfort was penetrated by events too troubling to dismiss. First, the permeating and victimizing fact of human degradation, symbolized by the Southern struggle against racial bigotry, compelled most of us from silence to activism. Second, the enclosing fact of the Cold War, symbolized by the presence of the Bomb, brought awareness that we ourselves, and our friends, and millions of abstract "others" we knew more directly because of our common peril, might die at any time. We might deliberately ignore, or avoid, or fail to feel all other human problems, but not these two, for these were too immediate and crushing in their impact, too challenging in the demand that we as individuals take the responsibility for encounter and resolution."

There were two overarching concerns for the founders of SDS: civil rights and racial equality, and international peace and recognition. Yet in the face of the most important election of our generation, in the face of a presidential contest that centered to a large part on race and the view the word of America, our SDS, UND's SDS, chose to focus on who makes our sweatshirts and how. There were no panel discussions on race in the election, there were no protests about the candidates' positions on the two wars America currently fights, and while voter registration is not required in North Dakota, SDS was not one of the groups to sponsor busses to the polls. SDS abandoned its traditional role to argue for better trade.

Was it wrong to do so? That is not for me to decide. Why did SDS chose this path? Because SDS, like the rest of us, are capitalists, and they, like we, feel that better trade is good trade, and that improved globalization is the goal of this current time in our economy. I know for a fact that individuals within SDS volunteered on political campaigns, but as an organization they were silent on democracy. Students for a *democratic* society were silent on *democracy* but they were not silent on commercial exchange. We are not seeing the death of free-market capitalism.

Now SDS may respond to these last comments in at least two ways. The first is that they might argue that fair trade is necessary for the spread of democracy across the world. I agree but I'm a capitalist. They might also point out that the Port Huron Statement addresses economic matters as well as political participation. Fair enough. It reads:

“The economic sphere would have as its basis the principles:

- that work should involve incentives worthier than money or survival. It should be educative, not stultifying; creative, not mechanical; self direct, not manipulated, encouraging independence; a respect for others, a sense of dignity and a willingness to accept social responsibility, since it is this experience that has crucial influence on habits, perceptions and individual ethics;
- that the economic experience is so personally decisive that the individual must share in its full determination;
- that the economy itself is of such social importance that its major resources and means of production should be open to democratic participation and subject to democratic social regulation.”

In other words, in 1962, SDS argued that work should be fulfilling and cultivate individual's humanity, that workers should get a say in the policies that govern them, and that the economy should be subject to democratic regulation.

I find myself agreeing with all of these precepts; it's hard not to. But the fact that *I* agree is of little importance. You know who else agreed? Adam Smith, the father of modern economics, the patron

saint of capitalism, the author of *An Inquiry into the Nature and Causes of The Wealth of Nations*, the book that ushered in modern free-market revolution.

In *The Wealth of Nations*, describing the dangers of the division of labor Smith wrote that society must attend itself to “the gross ignorance and stupidity, which in a civilized society, seem so frequently to benumb the understandings of [workers]. A man, without the proper use of the intellectual faculties of a man, is, if possible, more contemptible than even a coward” (*WN* V.i.5.61). In his lectures on Jurisprudence he explains, and this is a long quote:

“Another inconvenience attending commerce is that education is greatly neglected. In rich and commercial nations the division of labour, having reduced all trades to very simple operations, affords an opportunity of employing children very young. In this country indeed, where the division of labour is not far advanced, even the meanest porter can read and write, because the price of education is cheap, and a parent can employ his child no other way at 6 or 7 years of age. This however is not the case in the commercial parts of England. A boy of 6 or 7 years of age at Brimingham can gain his 3 pence or sixpence a day, and parents find it to be their interest to set them soon to work. Thus their education is neglected. ... But besides this want of education, there is another great loss which attends the putting boys too soon to work. The boy begins to find that his father is obliged to him, and therefore throws off his authority. When he is grown up he has no ideas with which he can amuse himself. When he is away from his work he must therefore betake himself to drunkenness and riot. Accordingly we find that in the commercial parts of England, the tradesmen are for the most part in this despicable condition: their work thro' half the week is sufficient to maintain them, and thro' want of education they have no amusement for the other but riot and debauchery. So it may very justly be said that the people who cloath the whole world are in rags themselves (LJ(B) 330).”

The division of labor, Smith writes here, causes, ignorance, drunkenness, riot, the breakdown of family and society, and the consequence, to repeat, is

that “the people who clothe the whole world are in rags themselves.” Smith’s goal was to create a system that countered this reality, to use the free market to forward what he called “universal opulence” the circumstance in which everyone had access to the “necessaries” or life, including the non-economic needs such as family, religion, education, and civic engagement. So Smith’s goals are the *Port Huron Statement*’s goals, thereby underscoring, yet again, that what SDS is, is not a collection of Marxist, Anarchist, or “radicals” to cite the title of this conference, but a group of capitalists who sought, in the face of other compelling political interests, to further the advancement of commercial enterprise through moral trade. Good for them. It is important in this climate to be reminded that liberal politics is more often than not moderate politics. Progressivism has become centrism, a refutation of the ultra-conservative ideologies that underpin the “small government” and “value voter” arguments.

What SDS isn’t, however, and what they, Smith, and I all share opposition to, is what has come to be called “free-market fundamentalism.” The neo-conservative or libertarian position that the market is the arbiter of all things, that the government’s job is only to protect individuals from each other, to protect the society from outside invasion, and to maintain and uphold contracts. They, Smith, and I all oppose the notion that total deregulation is preferable; that all individuals operate solely out of self-interest in every sphere of their lives, and that life is a commercial free-for-all that operates better and makes people more free when the government stays out of it.

The *Wealth of Nations* has three basic arguments for free-market economics. The first is empirical and the other two are normative. In other words, the first purports to have discovered a historical fact whereas the other two argue for a moral conclusion. Beginning with the first, Smith argues that human beings are born with “the propensity to truck, barter, and exchange one thing for another” (*WN* I.ii.1). This development of commercial society – Smith never uses the term ‘capitalism’ since it doesn’t come into use until the 19th century – is the natural progress of history. Economic systems are tied to governmental structures and technology, and as the systems of production change, so do social and political institutions. He thinks that economic production is reduced to four specific stages: nations of hunters, nations of shepherds, agricultural nations, and, finally, commercial societies (*WN* V.i.a, see, also, *LJ*(A) i.27; see also *LJ*(B) 25, 27, 149, 233), each

stage is ‘better’ than the previous one (we’ll see what better means momentarily), and each is inevitable given the flow of human civilization.

Commercial advancement was due, Smith argued, to specialization. The division of labor caused individuals to become more focused on individual processes, this focus led to innovation, which led to more efficient production, which led to cheaper production, which led to lower prices and greater access. However – and here is the key – the lower prices would lead to a glut in the market and no new purchases unless one could expand the universe of potential buyers. The best way to do this was to trade with other nations. The more one trades then the more potential costumers a merchant has, the more one can sell then the more workers one can employ, the cheaper everyone can buy goods then the more everyone can manufacture. Everyone is better off and everyone has what they need. Here is how Smith describes the interconnected global economy in a very eloquent passage. It is very long but I will read it in its entirety because only then can you get the full effect. In the current political climate, when ‘globalization’ has become a buzzword of condemnation, it is extremely important for us to re-encounter what globalization is supposed to mean, as if, for the first time.

“Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation, exceeds all computation. The woolen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to others who often live in a very distant part of the country! How much commerce and navigation in particular, how many ship-builders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the

different drugs made use of by the dyer, which often come from the remotest corners of the world! What a variety of labour too is necessary in order to produce the tools of the meanest of those workmen! To say nothing of such complicated machines as the ship of the sailor, the mill of the fuller, or even the loom of the weaver, let us consider only what a variety of labour is requisite in order to form that very simple machine, the shears with which the shepherd clips the wool. The miner, the builder of the furnace for smelting the ore, the feller of the timber, the burner of the charcoal to be made use of in the smelting-house, the brick-maker, the brick-layer, the workmen who attend the furnace, the mill-wright, the forger, the smith, must all of them join their different arts in order to produce them. Were we to examine, in the same manner, all the different parts of his dress and household furniture, the coarse linen shirt which he wears next his skin, the shoes which cover his feet, the bed which he lies on, and all the different parts which compose it, the kitchen-grate at which he prepares his victuals, the coals which he makes use of for that purpose, dug from the bowels of the earth, and brought to him perhaps by a long sea and a long land carriage, all the other utensils of his kitchen, all the furniture of his table, the knives and forks, the earthen or pewter plates upon which he serves up and divides his victuals, the different hands employed in preparing his bread and his beer, the glass window which lets in the heat and the light, and keeps out the wind and the rain, with all the knowledge and art requisite for preparing that beautiful and happy invention, without which these northern parts of the world could scarce have afforded a very comfortable habitation, together with the tools of all the different workmen employed in producing those different conveniencies; if we examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and cooperation of many thousands, the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated.

Compared, indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy; and yet it may be true, perhaps, that the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages (WN I.i.11).”

In the end – and ignoring the language that falsely appears to be racist to our contemporary ears – according to Smith, everyone is better off because of globalization and inequality diminishes.

There is a great deal to talk about here, and we will return to wealth momentarily. But it is important to take a moment and realize that what we have here is the beginning of the justification for economics as a *science*. Smith argues that the desire to trade is a *fact* of human nature and that commercial society is, in the end, a historical inevitability. The job of the economist is to describe this trade, to seek out the true economic relations – the proportional relation of production to employment, for example, or of interest to consumption. In order to argue that the market is dead one is going to have to challenge Smith’s claims that free-market economics accurately describes the world as it is – as accurately, he seemed to think, as astronomy describes the heavens or medicine describes the body. (I use astronomy as an example because Smith himself wrote about it, beginning economics’ preoccupation with models to analyze systems.) Economics is a science, many now think, because Smith was right. Human beings are a commercial animal; we are a trading creature.

Where things go afoul, where the free-market fundamentalists go wrong, is that they assume that people are *only* commercial animals, that all interactions are to be described in terms of exchange, that the self-interest that dominates in the economic sphere is the sole motivation for not only all economic activity but also for all personal/social activity. Allan Greenspan has now famously admitted that he was mistaken in his presumption that the self interest of corporations was enough to keep them protective of their interests. There are many reasons why he was wrong about this, some of which have to do with the fact that individuals make decisions in corporations and the interest of the individual does not always coincide with the interest of the

corporation, but most importantly, this is wrong because humans have other interests besides their selves and Smith knew that. Smith's first book was a treatise on moral philosophy. He criticized the rich and the excessively self-interested. He is clear that such interest only governs economical not personal, social, political, romantic, and familial relations. When I heard Greenspan admit his mistake my first reaction was to think, "my god, have you even read Smith?!?!"

Recall, however, that only one of Smith's arguments is empirical, the other two are normative. Recall that the division of labor improves people's condition. For Smith, the miracle of the market system is the pursuit of what he called "universal opulence" – all people, as I have indicated above – acquiring their necessities. He did not argue that all people would achieve the same level of "conveniences" and luxuries, but he was ok with what he called "rough equality" (*WN* I.v.4). So too are most of us.

So, is Smith correct? Does the market make everyone better off? I am not an economist, but evidence suggests that it does. To cite only one figure, if one makes more than \$25,000 per year, one earns more than 99% percent of the human population (<http://news.bbc.co.uk/2/hi/business/1763410.stm>). Everyone in this room is rich, *everyone*. We may not be rich compared to Bill Gates or even a university president, but compared to most everyone else we are all stinking, filthy, rich. We can afford food and shelter, basic medicine, cars, iPods, flat screen televisions – almost everything we need and most of what we want. This is not to say that there aren't poor people in American, it is to show you, however, that most of the poor in America are much better off than the poor in most of the world throughout most of history. If we are concerned about the poor – as I am, as Smith was, as SDS is – it involves fixing the system not rejecting it. Capitalism should not die, it should just be healed.

Thus, we have the remaining normative argument: Smith argues for a system of what he terms "natural liberty." The market fundamentalists will argue that this is the most important consideration is Smith's system, that Smith sought limited government and individual freedom. And he did. He asked for moderate taxation and freedom of conscience, but for him, natural liberty was the freedom to choose one's profession as one pleases. He also argued against radical social engineering – although what he meant

by this was not making personal economic decisions with the intent of affecting public policy – but he was clear that the people who made more money had to pay more taxes and that no taxation or fees could fall disproportionately on the poor. For example, he argues that toll roads should charge for value of cargo not weight because that would disproportionately affect the lower classes (*WN* V.i.d.13). He was for state sponsored and supported education and public arts programs; the state was supposed to help moderate religion (see my "Adam Smith's Philosophy of Education," *The Adam Smith Review* 3 (2007), pp. 51 – 74).

The free-market fundamentalists – the neoconservatives and libertarians – want you to believe that we never had a free market to begin with, that since the market has always been regulated we never actually saw capitalism. That's nonsense. Ideological mumbo jumbo equivalent to saying that if you don't believe in a right-wing evangelical literalist Jesus than you are an atheist. Smith's free market – and everybody's free market before Hayek and Friedman – was heavily regulated and concerned with making up for the inadequacies of *laissez fair* structures. 289 pages in my 947 edition of *The Wealth of Nations* are dedicated exclusively to state revenue and policies. That is more than one quarter of the book and ignores the many places throughout the text in which Smith addresses the issue in other contexts.

So, anytime anyone tells you that we haven't seen the free market then be advised, they have already drunk the cool-aid. The game is up before it began. The question for Smith, the question for me, and the question for all of us – even the question for those SDS members who sought free trade – is not whether the free market is dead, but rather what polices we can effect that will make the market more efficient, more just, and its effects more wide spread. This is not a rejection of Smith's vision it is an embrace of it. Capitalism got its name because it argues that unspent *capital* can make its money through investment instead of languishing in the bank unproductively. That return on the investment leads to more opportunities for all. Smith bears this ought. History bears this out. And SDS, in their choice to pursue fair trade instead of promoting electoral participation is knee deep in it. But I shouldn't point that out like it's a bad thing. It most certainly isn't.