Are there good reasons for limiting the free market?

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Since the collapse of the Soviet Union, many political commentators (e.g. Saunders, 1990) have commented that the structure and dynamics of planned 'communist' societies have been shown to be ineffective in meeting the goals of providing individual liberty, economic efficiency and prosperity. It was assumed that the 'free market' economic model was superior due to its dynamism and flexibility. The recent global economic crisis has revived the urgency of debates regarding just how much freedom's markets should have. This essay explores the Utilitarian argument in favour of the free market model and discusses alternatives and criticisms to this approach.

The 'pure' model of free market capitalism requires laws to protect property held by individuals or firms, that goods are produced to maximise profits and distributed 'freely' by anyone who can produce and sell them, regulated by supply and demand. 'Perfect competition' within capitalism economies has long been seen as an 'ideal' and not a liveable reality. Within capitalist societies there are always state owned and run institutions, a voluntary sector and illegal markets.

Unlike Locke's (cited in Wolff, 1996) argument concerning the initial acquisition of property, Utilitarian defenders of the free market do not concern themselves with the hypothetical context of acquisition. Rather, Utilitarian's highlight the benefits of trade and inheritance in providing motivations for the efficient transfer of property. For Utilitarian's, the free market economy advances aggregate human happiness to a level, that is not possible within a planned economic structure.

Hayek (cited in Wolff, 1996) suggests that the price system is the most efficient way of transferring information quickly concerning supply and demand and that the profit motive gives individuals the motivation to respond quickly to market fluctuations. Without regulation however, the demand for profit could lead to an efficient response to exploit an area of vulnerability where people could be harmed as a direct result (e.g. exorbitant loans, con-artists and unwelcome telesales). When the harm caused by faltering markets rises to the level of the recent economic crash, it can be easily seen that some level of regulation is needed, if only for long-term efficiency.

Free market economic systems can be criticised for creating 'negative externalities' (creating something as a by-product that people would rather not live with) and reducing positive ones (e.g. undersupplying public goods). A Marxist critique would suggest that markets are wasteful (also creating boom and bust cycles) and that they exploit and alienate workers, leading to massive inequalities in wealth and social power. Free market capitalism is never free of power relations, corruption and nepotism (Miliband, 1969). The Sociologist

Durkheim (1897) suggested that too much freedom leads to egoistic individualism and a break down of moral consensus, subsequently leading to a rise in anomie, depression, crime and suicide. Durkheim's ideas regarding 'anomie' were later taken up by Functionalist Sociologist Merton (1968), who argued that free market economies had produced goals that were not attainable for all through legitimate means, leading people to innovate alternative means, reject social goals of the consensus, retreat from social life, or rebel against it.

Perhaps the greatest negative externality caused by free market capitalism is the huge amount of waste created through 'disposable consumer culture'. Capitalism is dependent upon the invention of 'needs' we do not necessarily have, as Marx would say commodities are 'fetishised' (Marx, 1867). This also leads on to further issues such as inbuilt obsolescence, style over substance, the creation of the 'new' and the disposal of the 'old' whether this is functional for society or not. The 'free market' is hardly 'free' either when it is dominated by a few participants. Aspects of the economy of contemporary states are 'planned' by Oligarch's. It could be said that consumers are given an illusion of choice (e.g. one-hundred different styles of Nike Trainer!) in the name of fashion. Innovation is also often falsely equated with the free market economic model, to think that profit is the only motive that could inspire the human race to innovate, is to debase one's view of human nature. Under capitalism innovative ideas may fall by the wayside, if they are not being seen to produce profit, even if they may increase social utility greatly.

In a 'planned economy', the state controls property and productive processes. Production rather then satisfying a need for profit is led by satisfying social 'needs'. Therefore, planned economies centralise the transfer of property, rather than it being organised by 'free' trade. Planned economies have been criticised for leading to economic stagnation and for their tendency toward autocratic rule (Saunders, 1990). Wolff (1996) argues that planned economies are 'plagued' by shortages and overproduction of differing products and creating a 'depressing lack of quality and variety'. Yet, as the examples of negative externalities show, these problems are not solely attributable to planned economies!

A planned economy is thought to involve restrictions of individual behaviour and liberty to make free choices, yet it is problematic that an individual has rights to own property and trade it, even more so, to do as they please. Mill suggests that the liberty principle be supported by the harm principle (freedom from harm and thus restricting harmful behaviours), yet the inequalities produced in free market economies produce a great deal of harm and suffering. It is presumed that a planned economy will produce yet more harm and the collapse of the Soviet Union seems to suggest that, however this is a question open to debate. If an individual finds themselves being born into abject poverty, their position may be to accept a redistribution of wealth and regulating the excesses of the rich. Having said that, an over-planned system would lead to a fatalistic cultural life, that Durkheim (1897) also suggests leads to rises in depression and suicide.

Critics of a planned economy would point out that a planner may have little idea what people 'want' (or even 'need'). Engels (cited in Wolff, 1996) suggested that transfer rights could be based on 'need' rather than 'want' and that it was possible to ascertain a person's ‘basic needs’ and therefore easy to calculate the needs of the many and plan accordingly. Yet, what exactly are the ‘basic needs’ that are required by individuals? This differs depending on which theorist one turns to for advice: Rawls’ (cited in Wolff, 1996) highlights liberty with constraints, whilst Nozick (cited in Wolff, 1996) favours liberty free from constraint. Perhaps the only universal human need is ‘survival’, yet even this can be questioned by those who no longer wish to live!

The benefits of a planned economy, would be the potential to regulate against exploitative work practices based on profit alone, create a collectively derived social purpose (if not dictated to by the state) and could tackle immanent disasters far more efficiently and rapidly (e.g. climate change).

The practical reality of most societies is that there is a need for a ‘mixed economy’ with elements of free trade and state regulation to minimise the harmful effects of an unbridled free market and consequent negative externalities, whilst producing positive externalities in the name of social welfare for all.

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