

## Philsoc Student Essay Prize – Michaelmas 2013: Third Prize

### What is meant by the 'free market'? Are there any good reasons for limiting the free market?

By Allan Hicks

A market is an economic arrangement whereby goods (including land), intangible assets and services (including labour) are exchanged or bought and sold.

A market system is not necessarily inconsistent with a socialist regime (Rawls<sup>1</sup>), but a fully free market would be one that is allowed to operate without any interference. In practice most markets are regulated to some degree, but are nevertheless usually called 'free markets' if they operate under a capitalist system. Their operation is predicated on the idea that pursuit of self-interest is beneficial for society.

According to Wolff<sup>2</sup> four features are said to be central to the free market:

1. Property in land, raw materials, and other goods (including labour) is held by individuals or firms, under a system of secure property rights.
2. Goods are produced for profit, rather than to satisfy the consumption needs of the producer, or of other needy people.
3. All goods are distributed by voluntary exchange on a market regulated by laws of supply and demand.
4. Free competition exists: anyone may produce and offer for sale any good.

I would qualify this somewhat. Re 2, why could one not have 'not for profit' organisations? As to 4, a free market may well produce oligopolies or monopolies; to maintain competition, some freedom to compete (e.g. by oligopolies) must be restricted.

However, feature 1, the existence of privately held property is essential, and, in philosophical terms, is underpinned by libertarian and utilitarian arguments ("letting people engage in voluntary exchanges respects their freedom" and "free markets promote the general welfare; when two people make a deal, both gain as long as their deal makes them better off without hurting anyone else"). (Sandell<sup>3</sup>).

So, are there any reasons for limiting the free market?

Locke did not explicitly discuss markets so far as I am aware, but he did think private property sacrosanct, asserting<sup>4</sup> that human beings are *naturally* in a State of Perfect Freedom to order their Actions, and Dispose of their Possessions, and Persons as they think fit, ... without asking leave; or depending on the Will of any other Man."

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1Rawls. A Theory of Justice revised ed. 1999 p. 242

2Wolff. An Introduction to Political Philosophy 1<sup>st</sup> ed. 1996 p. 159

3Sandell. Justice 2009 p. 75

4Locke. Second Treatise of Government Chap II Para 4

Nozick definitely thought there are no good reasons, asserting<sup>5</sup> that “a minimal state, limited to the narrow functions of protection against force, theft, fraud, enforcement of contracts, and so on, is justified; that any more extensive state will violate persons’ rights not to be forced to do certain things, and is unjustified.”

However, I think we need to consider ‘justice’ as well as liberty and utility, I recognise that this is an expression with many flavours (e.g. based on equality or equity, or merit or need<sup>6</sup>) but this isn’t the place to explore these.

Rawls wrote<sup>7</sup> that “the primary subject of [social] justice is the basic structure of society, or more exactly, the way in which the major social institutions distribute fundamental rights and duties and determine the divisions of advantages from social co-operation. By major institutions [he understood] the political constitution and *the principal social and economic arrangements*.”

I think there are reasons (on the grounds of liberty, utility and justice) for limiting the free market, albeit these may to an extent restrict freedom and impair utility.

Consider the following for example.

*Concentration of power.* As mentioned above, unfettered market activity may result in monopolies or oligopolies, which will diminish competitiveness and utility. Gross inequality is also likely, producing an unjust (in my view – bearing in mind poverty is a relative concept for example) and divisive society.

*Negative externalities.* Without restriction, it will be in the interests of market participants to reduce their costs by passing them on to the rest of society (e.g. pollution) thereby diminishing utility.

*Public goods.* These are needed (e.g. universal education, parks, hospitals) to enhance utility and will only be provided on a universal basis (so that some people are not excluded from their use) by public authorities.

*People used as commodities.* Labour is a commodity in a free market. If one’s labour is no longer needed, one is discarded. Capital is much more mobile than people and is indifferent to people’s fate. Without government or charitable intervention (e.g. unfair dismissal laws, soup kitchens) to alleviate their situation, people will suffer unduly.

*Some transactions are inherently immoral or undesirable.* There used to be a market in slaves. On moral grounds, we no longer regard that as acceptable. Sandell<sup>8</sup> points out two objections to free market transactions: they may not be fair (grossly unequal bargaining power effectively introduces coercion); they may corrupt (things bought and sold may be degraded by the sale e.g. honours).

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5Nozick. *Anarchy, State and Utopia* 1974 Preface p. ix

6See Raphael. *Problems of Political Philosophy* 2<sup>nd</sup> ed. pp. 113 et seq.

7Rawls. *Op. cit.* Chap I. p. 6

8Sandell. *What Money can’t buy*. 2012 pp. 110 et seq.

*Unfair discrimination.* An unrestrained market will have no regard for those unable to participate in an exchange (e.g. the disabled poor would get no help) or would discriminate against those with particular needs e.g. pregnant women shortly before and after term (assuming they have the primary child caring role at that time). Indeed radical feminists would argue that the whole structure of the capitalist free market has values inimical to women<sup>9</sup>.

*Marxist perspective.* Surely it is right that a free market will generally speaking reflect a power and class structure in society. Levying taxation to pay for welfare for example (by governments that need to get democratically elected) will act as some constraint on that power and thereby restore some measure of justice.

Why are these *good* reasons for limiting the market? Without the intervention of governments, the concentration of power in conjunction with the unfettered pursuit of self-interest, is highly likely to result in reduced freedom, diminished utility, gross inequality, and transactions that are offensive on a deontological basis. In short intervention is necessary to produce a society worth living in.

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<sup>9</sup>Wolff. OP cit. p 210