

## 1.

### **Are Free Markets Fair to the Average Person?**

---

*Free markets are unfairly blamed for a lot of problems, but no other social system has ever done as much good for the common person. Free markets are better than any other system at protecting the natural environment, educating the people, preserving human health and safety, and preventing war. But most importantly, they allow the occasional genius to flourish.*

---

**M**ost of the big questions in human history have involved the distribution of resources. Japanese aggression in the Pacific region leading up to World War II was a laundry list of land grabs and claims to raw materials in places like Korea and China. The American Civil War, for all of the political and historical issues that also influenced it, was dominated by questions of resources: Could the South build an economy on the backs of slaves? Did urbanization and development leave some regions behind? Was the United States to be an agrarian or an industrial nation? Even the Revolutionary War, now much romanticized in textbooks, was at its heart a tax protest made even bigger by the British Crown's insistence on exploiting the natural resources of a far-flung empire.

It's no surprise, then, that questions about resources define the political world today. One of the longest-running feuds is over the most basic economic question of all: How should we organize ourselves as an economy?

There are only a few basic ways in which society can be organized:

**Autocracy.** These are dictatorships and absolute monarchies, which are often very colorful and usually even more tragic.

**Theocracy.** In a theocracy, God may be in charge, but he sends his messages directly to a handful of people who apparently know him better than you do. It's no surprise that God seems to give them a lot of authority that voters wouldn't.

**Socialism/Communism.** These twins lie in the same bed, since there's no fundamental difference between their philosophies. They're great choices for people who want to enjoy the solidarity of being poor and miserable together.

**Anarchy.** No government, no rules.

**Open Society.** Open societies go by all kinds of names (free markets, capitalism, or classical liberal societies are all favorites), but the basic defining characteristic is that an open society generally leaves its people free to trade, free to speak, and free to think.

It doesn't take a lot of work to knock theocracy, autocracy, and anarchy off the list of viable options. Theocracy and autocracy have universally shown themselves to lead to oppression and infringement upon human rights, and anarchy should be readily dismissed by anyone who suffered at the hands of a playground bully away from the teacher's view.

That leaves us with the framework for the epic struggle of the 20th Century: socialism against the free world. One of the greatest tragedies of the modern age is that the battle has continued for years after the fall of the Soviet Union.

Unreformed apologists for socialism often say, "You can't say pure socialism doesn't work because it's never been tried in practice." Its defenders usually think socialism has some sort of moral superiority, and there is something viscerally appealing about the

slogan, “From each according to his abilities, to each according to his needs.” It sounds just and fair – but only on the surface. The problem is the titanic failure of the evidence. Whether they believe in soft-serve European socialism, Soviet-style collectivism, or some mythical “pure Communism”, their belief is a betrayal of the millions who died in the Soviet Gulag<sup>1</sup>, in Mao’s Great Leap Forward<sup>2</sup>, and in the late 20th Century famine<sup>3</sup> in North Korea.

Socialist theory is perpetually in the grip of a destructive mentality. Whether it’s on the macro scale of a Communist regime forcing hundreds of thousands of people from their homes and killing two million people by political purges and famine (as in Cambodia in the 1970s)<sup>4</sup>, or on the micro scale of protest groups breaking windows and attacking delegates attending talks on trade liberalization (as in Seattle in 1999)<sup>5</sup>, the operative word to socialism is “smash” – not “create.”

The fact that socialist economies have always failed sooner or later isn’t itself proof that an open society is the best way to go – but it should be a repudiation of the supposed moral goodness of socialism. A system that consistently sacrifices the lives of millions of people can’t be good.

### **Free-Market Societies Aren’t the Same as Anarchy**

In order to illustrate that a free-market, open society is the best type of social system, the first step is to clear up the usual confusion of the free market with a state of anarchy. This is vital, since the most common argument against free markets is that they are lawless places where factories recklessly pollute the environment, where unscrupulous salespeople ruthlessly take advantage of the consumer, and where the wealthy routinely buy their way to power and oppress everyone else.

---

<sup>1</sup> Infoplease/Columbia Electronic Encyclopedia, “Gulag,” <http://www.infoplease.com/ce6/society/A0921567.html>

<sup>2</sup> BBC News, “Great Leap Forward,” [http://news.bbc.co.uk/1/hi/english/static/special\\_report/1999/09/99/china\\_50/great.htm](http://news.bbc.co.uk/1/hi/english/static/special_report/1999/09/99/china_50/great.htm)

<sup>3</sup> Bloomberg, “North Korean Media Drop ‘Dear Leader’ Title, Press Monitor Says,” <http://www.bloomberg.com/apps/news?pid=10000080&sid=aL8FRWVjFoQ&refer=asia>

<sup>4</sup> Yale University Cambodian Genocide Project, “Chronology of Cambodian Events Since 1950,” <http://www.yale.edu/cgp/chron.html>

<sup>5</sup> *Seattle Post-Intelligencer*, “WTO Photo Gallery,” <http://seattlepi.nwsource.com/wtogalleries/subcategory.asp?SubID=15>

The fact is that markets simply don't last in a legal vacuum. Vibrant markets (the hallmark of an open society) specifically require a solid legal foundation in order to work. The rules of a healthy market include secure property rights, binding contracts, and conventions for orderly exchange. Invariably, market enthusiasts are quick to complain about too much government, but they are not amused by the concept of no government at all. Ronald Reagan and Margaret Thatcher were legendary defenders of market economies, but neither did away with government.

A society without law is anarchy – no better than the law of the jungle – and it suggests that humans are incapable of improving on the state of our own nature. Most of the things that make us happy – like good food, beautiful music, and pleasant times with friends – are available to us only when we don't have to spend most of our waking moments watching over our shoulders. The yields of leisure secured by peaceful order distinguish us from the lesser animals.

Both anarchy and open societies hold liberty as one of the highest human goods. The distinction is that open societies realize that government can sometimes improve on pure market outcomes, and that sometimes the value of those improvements are even greater than the value of pure liberty – the right to be left completely alone. At the distant, lawless extremes – and really, only there – complete liberty can be self-destructive. Just as it's possible to kill a person by force, it's possible to starve a person by making it impossible for the individual to use or acquire the tools necessary to earn an income. Laws, at their best, can help stem the abuses of extreme liberty by ensuring universal access to those tools.

That said, an open society must be acutely aware that the very law necessary to a healthy market can also be turned into an agent of destruction. Like fire, it must be kept small and controlled – but also treated with a healthy dose of fear. By their nature, market thinkers are rightly skeptical of political power and government action.

Thus we've established that open societies do less harm than the alternatives. But that doesn't necessarily make them good, as people are often quite willing to point out. What follow are five examples of positive cases in which open societies and market economies are clearly and demonstrably better than the alternatives.

### **Open Societies Are Best for Protecting the Environment**

Despite howls of protest from activist groups, the evidence is clear that market economies in open societies are good for the environment. Environmentalist movements are only free to operate and lobby for public favor in open societies. There were no "green" movements in the Communist-run Soviet Union, nor an Audubon Society under Afghanistan's Taliban theocracy or Saddam Hussein's Baathist dictatorship in Iraq.

Open societies not only have the freedom of will to act on environmental issues, they also have the resources with which to effectively fix ecological problems. All human activity produces some waste – so long as there is friction, activity will always at least produce waste heat – so the issue is not whether we create waste, but rather how to deal with it.

A fine example is the damage done to the environment by Communism. The former Eastern Bloc nations suffered the worst environmental conditions in Europe precisely because their old command economies could not efficiently deliver the same goods and services as freer markets in the West while simultaneously cleaning up after themselves.

In fact, the real tragedy is that they completely failed to achieve either goal – their goods were shoddy as well as in short supply, and they poured vast amounts of pollution into the air, water, and soil. Soviet Chernobyl will be a wasteland for decades to come, but even the worst nuclear accident in the free and open West (at Three Mile Island) never really became a disaster. Pollution by the Communist USSR virtually destroyed the Aral Sea<sup>6</sup>; yet America's

---

<sup>6</sup> Kyrgyz-Russian Slavic University, "Environmental State of the Aral Sea Basin," <http://enrin.grida.no/arak/aralsea/english/arsea/arsea.htm>

Cuyahoga River, part of which famously caught fire in 1969 due to industrial pollution<sup>7</sup>, is now considered an example of successful environmental remediation<sup>8</sup>.

Market societies have the environmental advantage in several regards. First, markets reward the innovations that allow environmental protection to take place. Under capitalist systems, a market exists to reward innovations like double-hulled oil tankers and gas flume scrubbers and reverse-osmosis filtration of drinking water. Other systems simply don't have the incentive structures in place that lead to those sorts of developments.

It is just as important to realize that, by design, a market economy discourages waste. Profits are the driving force behind production; the greater the profit, the happier the producer. It doesn't take Adam Smith to figure out that companies that waste their resources – including natural ones – keep a smaller share of their revenues as profits than firms that use their resources efficiently.

There's a science to determining the right level of pollution that any particular person or firm can produce and that the environment can absorb without causing us more harm than good. There is a "right" level of pollution – and it's more than none at all. We get lots of good out of the things we produce that generate waste as a byproduct. Even if we lived as cave men and women, we would still need to build fires for heat, skin animals for clothing and blankets, and leave our waste where it wouldn't bother us. Technology affords us new and better ways of accommodating our needs, often with less waste left behind.

Given that there is some right level of pollution, a reasonable case can be made for government to regulate that pollution. Without any regulation at all, factories could simply build taller smokestacks and ship air pollution downwind to people who couldn't recoup the costs of the damage. Nuclear power plants could dump radioactive waste into unsafe landfills and expose later generations

---

<sup>7</sup> Environmental Protection Agency, "Cuyahoga River Area of Concern," <http://www.epa.gov/glnpo/aoc/cuyahoga.html>

<sup>8</sup> US Geological Survey, "The Cuyahoga River Watershed," <http://water.usgs.gov/owq/cleanwater/success/cuyahoga.html>

to cancer risk from energy they didn't consume. Manufacturers could dump chemicals into the ground, where they could contaminate the soil and groundwater for centuries.

Open societies can regulate the pollution that is created. That regulation requires a careful balancing act between ecological preservation on one hand and progress on the other. But unlike a dictatorship, in which the ruler could order the pollutants dumped on the homelands of opposition groups, or a Communist government, where the Party acts as both polluter and regulator, an open society has both the political will and the economic means to enjoy the benefits of production while responsibly cleaning up the damage done.

### **Open Societies Deliver Education Best and Most Widely**

In an open society that operates on market principles, employers want educated, skilled workers. It's an extension of a model of economic growth created by Robert M. Solow<sup>9</sup>, which says that the main causes of economic growth are labor productivity, capital investment, and technological advancements. Employers want to stay at least even with growth in the economy as a whole, and usually try to do even better than that. This gives employers a strong incentive to find better-educated workers.

Other systems are either neutral or expressly hostile to education. Autocracies and theocracies can't long remain in control of educated societies, and socialist systems, while often held up as examples of educational achievement, fail to deliver the goods in the long run. The Soviet Union, for instance, had a literacy rate of nearly 100%, but that was little consolation to an individual who wanted to study religion or discuss dissenting political views but was prohibited from doing so by the secret police.

Socialist systems also tend to stifle the internal labor market competition for education – even going so far as to “track” some students early in their educational careers, prohibiting them from achieving higher levels of education. It doesn't happen only within totalitarian states; even soft socialism – the kind prominent in

---

<sup>9</sup> Robert M. Solow, Nobel Prize Lecture, <http://nobelprize.org/economics/laureates/1987/solow-lecture.html>

much of Europe in the latter half of the 20<sup>th</sup> Century – can make the same mistake. Germany’s multi-tiered tracking system of public education sets students on different courses just a few years into the educational career<sup>10</sup>, which rather significantly limits the individual’s long-term employment opportunities.

Anarchy would allow the individual to study whatever he or she pleased, but there’s a built-in problem of supply. Education is usually not very satisfying to the student at the time it is received; five-year-olds usually don’t want to learn to count nearly as much as they want to play outside, but the consequences of not learning to count are pretty significant in the long run. Since some parents themselves don’t understand the long-term value of education, it’s not an outrageous intrusion on liberty to make elementary and secondary school attendance compulsory. Parental neglect shouldn’t condemn children to perpetual poverty.

The reason education is in such great demand in open societies is that it helps the individual to compete in the labor market. As more individuals attain one level of education (a high school diploma, for instance), the market demands more of the next-higher level of education (an associate’s or bachelor’s degree). Demand for education increases as a result, and wherever such demand exists, an incentive is created to deliver a supply.

### **Open Societies Deliver the Most Labor-Saving Devices and Safety Practices**

It may seem just as counter-intuitive as the case of environmental protection, but open societies do the best job of protecting people because they contain both the framework for providing safety measures in the home and workplace as well as the incentives to do so. In this example, we see the difference between free markets and anarchical markets. While some “anarcho-capitalists” would argue that there should be absolutely no regulations on health and safety practices, most capitalists acknowledge that some regulations are necessary but are best kept to a minimum.

Again, compared to the other ways of organizing society, free

---

<sup>10</sup> “US Department of Education, “To Sum It Up,” <http://www.ed.gov/pubs/SumItUp/chapter3.html>



markets are the ones that deliver the goods – whether we consider toxic gas detection equipment that protects workers from dangerous conditions or basic labor-saving devices like microwave ovens and dishwashers that spare hundreds of millions of man-hours in wasted work every year. Command economies, theocracies, and autocracies just don't do the same job.

Consider a very simple case: Cheap clothes washers and dryers save Americans millions upon millions of man-hours every year. Those hours are hard to measure; almost no one sits down to measure up how much time they save by using automatic washers and dryers instead of scrubbing away at a washboard. But that time saved becomes leisure time: Time the individual can devote to playing with children, enjoying concerts, or writing books. Or that time can be used for more work to make even more money, perhaps to save for the future.

It's remarkably easy to miss the incredible accumulated benefits of time-saving devices – mainly because the benefits are incremental. Microwave ovens first came into popular use in the 1980s<sup>11</sup>, but within just two decades, they were found within most American kitchens. Millions upon millions of hours are saved every year because a microwave can cook in seconds what an oven or stove takes minutes to do – but we rarely notice because we now use that time in other ways. Just because we've found substitute things to do doesn't mean that the time saved isn't incredibly valuable.

Communists, fascists, and totalitarians do a pretty lousy job of inventing things like seat belts, child-proof medicine caps, and ergonomic keyboards. They are that way for at least two reasons: Without a healthy market economy, no one has any special incentive to create or invent those things that make life easier for others. The reward system in a free market gives the inspired inventor an incentive to create and market new things.

Moreover, when markets aren't free, the value of a person's labor becomes artificially cheap, so wasted time seems less personally

---

<sup>11</sup> US Department of Energy, Energy Information Administration, "1997 Residential Energy Consumption Survey," <http://www.eia.doe.gov/emeu/recs/recs97/decade.html#totcons1>

troubling. Anywhere government has the power to compel the individual to do whatever it wants, it turns that person into a slave. Because the slave is forced to work at the barrel of a gun, she is robbed of the right to bargain for what her time and work are really worth. Because the government can compel the individual to work, he can't say that he would rather read or sing or swim than perform labor at someone else's command. As a result, there is ever less purpose for labor-saving devices; why use one, if you can't choose what to do with the time and sweat you save anyway? No less, from a strategic standpoint, oppressive regimes have an incentive to keep their subjects as busy as possible, even if the work is no better than digging a hole and then filling it up again. Labor-saving devices give people free time with which to think about the nature of their oppression.

### **Free Markets Tend to Keep Nations Out of War**

Thomas Friedman advanced the idea of the "Golden Arches Theory of Conflict Prevention,"<sup>12</sup> which says that markets and trade create a strong disincentive for two nations to engage in war. While there's reasonable debate about the extent to which it's true (like most ideas about human nature, it has exceptions), there is something intuitively satisfying about it.

If I'm not completely self-reliant, then I have to cooperate with other people to get the things that I want and need. On the individual scale, suppose I work as an accountant. The money I earn from preparing someone's taxes is money I can use to buy milk at the grocery store. In this system, I have every reason to stay on good terms with the people for whom I work as an accountant, and I have no reason whatsoever to break into the grocery store to steal the milk. I want my accounting customers to remain happy and prosperous so they will renew my accounting contract, and I want the store to remain open as a safe place where I can buy the food I want.

Note, by the way, that it makes no difference whatsoever whether I care for the language the grocery clerk speaks at home, nor the church my accounting clients attend. In fact, I could be completely

---

<sup>12</sup> Jacob Weisberg, "DOS Capitalism," *Slate Magazine*, <http://www.slate.com/id/25365/>

ignorant of the grocery clerk's mother tongue, and I can worship at a church that calls my accounting clients' faith heresy. These things are mere trivia when the question is whether I can live side-by-side with them in peace.

Trade is no absolute guarantee against war by any measure, but market societies have large constituencies that will always oppose war – except when absolutely the last resort – on the grounds that whatever is spent on war could have been better spent on something else. Some will oppose the costs of war simply because they don't want to pay heftier taxes. Wars are notoriously costly in both blood and treasure, so the government must overcome a strong inherent opposition in order to convert private wealth to public use, particularly for war. Others will oppose war because they'd rather spend the money on public schools and welfare programs. This tends to have the effect of ensuring that war becomes a last-ditch choice for a free-market society.

Even in a free society, some parties will benefit from war; President Dwight Eisenhower warned of the rise of a military-industrial complex in 1961<sup>13</sup>. But Eisenhower understood that the problem was the threat a military-industrial complex posed to freedom. He didn't blame freedom itself for creating the complex.

By contrast, nations that lack the comforts of prosperity often substitute comfort for a nationalistic pride in militarism. Military power brings out a primeval sense of pride – like pride in a winning football team, only much larger. Nations downtrodden by economic circumstances have been known to use military force against their neighbors both to steal natural resources and to inflate the national sense of self-worth. Nazi Germany's aggressions are but only the most ominous of 20<sup>th</sup> Century examples; the influences of militarism and destruction have a long history in nations that aren't willing to engage the rest of the world in trade.

### **Open Societies Allow the Occasional Genius to Flourish**

True genius may be the sort of thing that happens entirely at

---

<sup>13</sup> Yale University Avalon Project, "Military-Industrial Complex Speech, Dwight D. Eisenhower, 1961," <http://www.yale.edu/lawweb/avalon/presiden/speeches/eisenhower001.htm>

random – happening with the same frequency no matter what kind of government prevails over the people. But open societies are the very best ones for allowing genius to flourish. Imagine Benjamin Franklin had he been forced to grow up in Soviet (or Tsarist) Russia, or Thomas Edison had he been educated in a Saudi madrass<sup>14</sup>, or Albert Einstein had he never escaped Nazi Germany. In each case, the spark would almost undoubtedly have been lost. Is there any chance they still would have been extraordinary thinkers?

What would society have lost?

The world doesn't need millions of geniuses in order to carry on. In fact, it doesn't require very many at all. But the extent to which everyone benefits from even the least of a decent stroke of genius is quite enough to justify making certain that the environment is right for that brilliance once it comes along.

Only free markets allow talent to rise to the top; just as is the case with labor-saving devices, abundant rewards follow innovations. Other social systems require political or other kinds of favor to make things happen. Franklin's acerbic wit would have been a one-way ticket to the Gulag when Stalin ruled the Soviet Union; Edison's engineering genius would have been stifled by the ceaseless repetition of a single holy book in a Wahhabi religious school; Einstein might have perished in a concentration camp. In short, it is only because they were free that these geniuses were able to fulfill their own potential. And it is virtually incalculable what we would have lost without them.

### **Indiscretions Aren't the Same as Systemic Failure**

The mistake so widely made when people criticize "capitalism" is that they identify certain indiscretions – occasional failures of the system – and consider them indictments of the system as a whole. Unfortunately, that's like blaming exterminators and entomologists for the existence of bugs. Some abuses do and will occur under free-market systems; but abuses occur as well under every other

---

<sup>14</sup> Ambassador Francis X. Taylor, "A Global Perspective on Terrorism and Organized Crime," <http://www.state.gov/m/ds/rls/rm/31861.htm>

system. Some people will use market systems to enrich themselves at the expense of others; but under other systems, those abuses are often undertaken with the express consent and cooperation of the state. In most cases, the wrongs that take place in an open society are less extensive and more quickly corrected than in any other shape of society

In the end, the real measure of the goodness of an open society is that it delivers the goods – peace, health, prosperity, happiness – to more people more effectively than any other system, and exposes and corrects abuses when they occur. After millennia of trying, no other system has ever come close.