

# ECONOMIC FREEDOM AND MORALITY

*Christina Free*

The free market system of economics has been adopted by innumerable countries across the globe. This system provides the greatest opportunity for nations and their citizens to generate wealth. Father of modern economics, Adam Smith, argued that, when unrestrained by government, the individual can achieve economic prosperity and in doing so, congruently support the economic interests of the masses<sup>1</sup>. Smiths' principle stands today; countries which prescribe most closely to a laissez-faire system typically have a much higher GDP per capita than nations who limit the economic freedom of their citizens<sup>2</sup>. The free market may be the most productive and efficient economic system, yet some critics contend that it is not a moral system. Capitalism is simply a system of relationships; it cannot be moral or immoral, since only individuals can be moral agents<sup>3</sup>. Thus, the moral justification for free enterprise depends on whether it promotes moral behaviour by its participants. This paper asserts that the free markets allow and encourage the development of moral character. Capitalism, more than any other economic system, permits the exercise of individual free will, and this creates an environment in which people can freely choose to act in accordance with their moral obligations.

---

<sup>1</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: J.M Dent & Sons LTD, 1957), 477.

<sup>2</sup> Diego Alonso-Lasheras, "Financial Crisis, Moral Crisis," *Mensaje Magazine*, November 2008, 36.

<sup>3</sup> Edward Younkins, "Capitalism and Morality," *Impact*, (Summer 1998), accessed June 9, 2011, <http://www.quebecoislibre.org/younkins21.html>.

According to Thomas Hobbes, every rational being has the ability to “know the general kinds of actions that morality prohibits or encourages”<sup>4</sup>. Virtues such as truthfulness, respect and cooperation are generally considered to be moral attributes. Above all these, freedom is the most important, because without it, all other moral virtues are meaningless. If an individual gave a large sum of money to support first aid relief, people would agree that such an act of charity would be considered virtuous. However, suppose the individual donated her money because she was coerced to do so. Suddenly her act of charity becomes an act of self-preservation and fear, borne out of the immoral actions of another. This scenario illustrates the point that an individual’s actions are only virtuous if they are free, although the inverse is not always true<sup>5</sup>. The only restraint on freedom in a capitalist society is that its participants cannot infringe on other people’s right to freedom<sup>6</sup>. It is an economic system “in which an individual’s rights to life, liberty, and property are protected by law. It is the system most able to make personal flourishing possible.”<sup>7</sup>

Free enterprise establishes an environment of meritocracy, where individuals and corporations are rewarded for their creativity, work ethic, moral fiber, and perseverance<sup>8</sup>. The desire to maximize personal welfare leads people to strive to reach their greatest potential. In the long run, businesses which operate in accordance with the ‘universal code

---

<sup>4</sup> Bernard Gert, "The Definition of Morality," *The Stanford Encyclopedia of Philosophy* (Summer 2011 Edition), ed. Edward N. Zalta, <http://plato.stanford.edu/archives/sum2011/entries/morality-definition/>.

<sup>5</sup> Paul Benson, “The Moral Importance of Free Action,” *The Southern Journal of Philosophy* 28 (1990): 1.

<sup>6</sup> David Miller, “Constraints on Freedom,” *Ethics* 94 (1983): 66.

<sup>7</sup> Edward Younkins, “Capitalism: The Only Moral Social System,” *Le Quebecois Libre* 231 (2007), accessed June 10, 2011, <http://www.quebecoislibre.org/07/070624-5.htm>.

<sup>8</sup> Ayaan Hirsi Ali, “Not at all,” in *Does the free market corrode moral character?* (John Templeton Foundation, 2008): 22-23.

of conduct' are often the most profitable<sup>9</sup>. A study done at DePaul University compared the financial performance of 100 companies, selected by *Business Ethics* magazine for their ethical practices as "Best Corporate Citizens", with the performance of the rest of the S&P 500<sup>10</sup>. The study found that the average performance of the "Best Citizens" companies as measured by the 2001 *Business Week* rankings of financial performance "was more than 10 percentile points higher than... than the rest of the S&P 500"<sup>11</sup>. Douglas Baker, CEO of Ecolab, named one 2009's 'worlds most ethical companies', stated that "we believe that strong business ethics are critical to delivering profitable and sustainable growth"<sup>12</sup>. These findings demonstrate the free markets naturally encourage good citizenship and ethical behaviour, since corporations who are able to maintain the trust of their customers are rewarded accordingly.

Critics of capitalism contend that free markets promote greed, which leads corporations to commit immoral actions in an attempt to maximize their financial gains<sup>13</sup>. There are instances when businesses attempt to cut ethical corners to try to increase profits, but their actions are often met with a harsh reprimand in the free market. The Enron scandal which occurred in 2001 is an example which demonstrates that immoral actions are not tolerated in a free enterprise system. When it became apparent that the firm had concealed hundreds of millions of dollars of losses from their balance sheets, Enron lost all

---

<sup>9</sup> Doug Lennick and Fred Kiel, *Moral Intelligence: Enhancing Business Performance and Leadership Success* (New York: Pearson Prentice Hall, 2005), 12-16.

<sup>10</sup> *ibid.*

<sup>11</sup> *ibid.*

<sup>12</sup> "World's Most Ethical Companies," *Ethisphere*, accessed June 14, 2011, <http://ethisphere.com/worlds-most-ethical-companies-testimonials/>.

<sup>13</sup> Virgil Henry Storr, "Why the Market? Markets as Social and Moral Spaces," *Journal of Markets & Morality* 12 (2009): 277-296.

credibility and was forced to file for bankruptcy<sup>14</sup>. Moreover, it is imperative that corporations not simply *appear* ethically sound in order to attract customers. Enron was perceived to be a highly successful and innovative corporation for several years before their collapse. They were unable to hide their immoral actions indefinitely; it would have been much wiser to have been truthful from the start. Altering debts and losses on balance sheets and other immoral actions may seem appealing in the short term, however, have detrimental consequences in the long term. Corporations in a free enterprise system are held accountable for their actions not only by the law, but also by their customers, competitors and investors.

There is an undeniable link between the level of economic freedom in a nation and the development of an ethical society. “It cannot be a coincidence that the indexes of economic development show an inverse statistical correlation with the indexes that measure corruption in a country”<sup>15</sup>. In 2007, Transparency International named Denmark and New Zealand, both with active market economies, among the least corrupt countries in the world<sup>16</sup>. Alternatively, Myanmar and Somalia, who claimed themselves to be ‘free market’ economies, but do not apply free market ideals, were ranked among the ‘most corrupt’<sup>17</sup>. Economic systems such as Communism or Feudalism have resulted “not just in corruption... but also in fear, apathy, ignorance, oppression, and a general lack of trust”<sup>18</sup>. Historically,

---

<sup>14</sup> Cathy Book Thomas, “Called to Account,” *Time*, June 18, 2002, accessed June 11, 2011, <http://www.time.com/time/business/article/0,8599,263006,00.html>.

<sup>15</sup> Diego Alonso-Lasheras, “Financial Crisis, Moral Crisis,” *Mensaje Magazine*, November 2008, 36.

<sup>16</sup> Tyler Cowen, “No, on balance,” in *Does the free market corrode moral character?* (John Templeton Foundation, 2008): 18-19.

<sup>17</sup> *ibid.*

<sup>18</sup> Ali, “Not at all,” 22-23.

centrally planned economies, such as that of the former Soviet Union, “rapidly descended into totalitarianism and terror”<sup>19</sup>. Without “the voluntary participation of the citizenry, moral character cannot be mandated or imposed without destroying free will itself”<sup>20</sup>. UN indexes show that with increased economic freedom also comes increased literacy rates, greater gender equality, less child labour, a decrease in poverty, and higher life expectancy rates<sup>21</sup>. Greater wealth allows for greater charity; countries which struggle to make ends meet are less able to invest in social structures which promote morality such as education. This data shows that economic, social and moral progress typically comes hand in hand with a free enterprise system.

The free market effectively strengthens moral character by rewarding individuals for their industry and diligence. True freedom is not the license to do whatever one desires irrespective of its effects on others, it takes into consideration the natural rights that belong to every human being. “There can be no morality without responsibility and no responsibility without self-determination”<sup>22</sup>, and no other economic system allows more room for self-determination, and thus, morality, than free enterprise.

---

<sup>19</sup> Garry Kasparov, “Yes, but...,” in *Does the free market corrode moral character?* (John Templeton Foundation, 2008): 6-7.

<sup>20</sup> *ibid.*

<sup>21</sup> Antony Davies, “Markets: Exploitation or Empowerment?” (lecture given for learnliberty.org, May 26, 2011), <http://www.learnliberty.org/content/markets-exploitation-or-empowerment>.

<sup>22</sup> Edward Younkins, “Business and Morality in a Free Society,” *The Freeman Ideas on Liberty* 47 (1997), Accessed June 12, 2011, <http://www.thefreemanonline.org/featured/business-and-morality-in-a-free-society/>.

## BIBLIOGRAPHY

- Ali, Ayaan Hirsi. "Not at all." in *Does the free market corrode moral character?* 22-23. John Templeton Foundation, 2008.
- Alonso-Lasheras, Diego. "Financial Crisis, Moral Crisis." *Mensaje Magazine*, November 2008.
- Benson, Paul. "The Moral Importance of Free Action." *The Southern Journal of Philosophy* 28 (1990): 1-18.
- Cowen, Tyler. "No, on balance." in *Does the free market corrode moral character?* 18-19. John Templeton Foundation, 2008.
- Davies, Antony. "Markets: Exploitation or Empowerment?." Lecture given for learnliberty.org, May 26, 2011. Accessed June 11, 2011. <http://www.learnliberty.org/content/markets-exploitation-or-empowerment>.
- Ethisphere. "World's Most Ethical Companies." Accessed June 14, 2011. <http://ethisphere.com/worlds-most-ethical-companies-testimonials/>.
- Gert, Bernard. "The Definition of Morality." *The Stanford Encyclopedia of Philosophy* (Summer 2011 Edition), ed. Edward N. Zalta. <http://plato.stanford.edu/archives/sum2011/entries/morality-definition/>.
- Kasparov, Garry. "Yes, but..." in *Does the free market corrode moral character?* 6-7. John Templeton Foundation, 2008.
- Lennick, Doug and Fred Kiel. *Moral Intelligence: Enhancing Business Performance and Leadership Success*. New York: Pearson Prentice Hall, 2005.
- Miller, David. "Constraints on Freedom." *Ethics* 94 (1983): 66-68.
- Thomas, Cathy Book. "Called to Account." *Time*, June 18, 2002. Accessed June 11, 2011. <http://www.time.com/time/business/article/0,8599,263006,00.html>.
- Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: J.M Dent & Sons LTD, 1957.
- Storr, Virgil Henry. "Why the Market? Markets as Social and Moral Spaces." *Journal of Markets & Morality* 12 (2009): 277-296.

Younkins, Edward. "Business and Morality in a Free Society." *The Freeman Ideas on Liberty* 47 (1997). Accessed June 12, 2011. <http://www.thefreemanonline.org/featured/business-and-morality-in-a-free-society/>.

Younkins, Edward. "Capitalism and Morality," *Impact*. (Summer 1998). Accessed June 9, 2011. <http://www.quebecoislibre.org/younkins21.html>.

Younkins, Edward. "Capitalism: The Only Moral Social System." *Le Quebecois Libre* 231 (2007). Accessed June 10, 2011. <http://www.quebecoislibre.org/07/070624-5.htm>.