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**Economic Freedom:
Fundamentally Important
and the Most Attacked**

I dedicated this essay¹ to the memory of a great liberal thinker and a statesman, Luigi Einaudi. I start with noting the conceptual confusion surrounding such basic terms as freedom, state, law, democracy. I stress against this background that conceptual clarity is of great analytical and political value. I then discuss the tendency, present both in the public and in academia, to treat the state as a deity, while criticizing its functionaries. The next section deals with individual freedoms and links its variation to various institutional systems. I then discuss political and civil liberties. This is the stepping stone to the analysis of economic freedom, and especially of the threats this freedom is exposed to, even in democratic capitalism. The next section is dedicated to a more thorough discussion of economic liberty as this concept is far from clear in most debates. This brings me to the Paradox of Economic Freedom—to the fact that this liberty is especially important because of the consequences in its variation to the millions of ordinary people, and, at the same time, the most attacked under democratic capitalism. I then discuss the importance of economic freedom by pointing out how socially costly are the restrictions of this institutional variable, i.e. consequences of various statist regimes. The next section deals with the attacks on economic freedom coming from the statist pressure groups. The essay ends with a note on how to defend economic freedom under democracy and capitalism.

1. THE CONCEPTUAL CONFUSION

We cannot discuss any basic aspect of the life of an individual in a society without using such terms as freedom, property, law, state, justice, democracy, etc. However, each of these terms has different meanings, sometimes contradictory. For example, democracy was supposed to exist in the West and in the former Soviet Union. What liberty meant to J.S. Mill was very different from the meaning Hegel gave to the same term. There have been lengthy discussions among political philosophers on what law is and what the rule of law is.

¹ This essay is an expanded version of the lecture held at the XXVI Conferenza Fulvio Guerrini (Torino, Centro Einaudi, October 9th 2013).

This state of affairs results from various factors. One of them is a simple political manipulation of the language, typical of totalitarian regimes. What should be surprising and considered to be disgusting, is that certain intellectuals have supplied a pseudo-intellectual justification for these practices. Some other politically engaged authors have changed the original meaning of a term by replacing it by a different one, while claiming that they have been faithful to the original concept. This is what has happened to the expression “liberalism” in the United States or to the term “freedom” in the hands of Hegel.

Some philosophers have had an unfortunate habit of making conceptual discoveries, by giving new meaning to the established terms instead of assigning new terms to the new concepts. Such a practice creates only confusion and brings nothing to better understanding of a real word. Rather it obstructs it. And this is not only an intellectual problem; but political, too: old terms loaded with new meanings, and often supplied with powerful emotional “charges”, have been an effective instrument in the political struggle.

This has been especially true regarding the intellectual and political expansion of statism (i.e. expanded role of the state in a society); the reverse side of this process has been the reduction in the scope of individual freedom, especially the economic one. Against this background, the fight for conceptual clarity has an important intellectual and political sense.² This effort should focus on such terms as the state, liberty, and the rights.

2. THE DEIFICATION OF THE STATE

The expansion of statism has been related to the spread of the concepts of the state which ascribe to it a large and positive role in a society.

Many people, both in the West and in the former socialist countries, display an attitude which I call—somewhat pointedly—“a mentality of Soviet official”. It is a generalized belief: “whatever problem there exists, only the state can solve it.” The state is perceived as a deity, i.e. an omniscient and benevolent being with unlimited resources. Many persons display such an attitude, while complaining about politicians and government bureaucrats.

The mentality of Soviet official results from years of statist propaganda and from the practices of many politicians, which pretend to be universal problem solvers, if not outright “Santa Clauses”. The unavoidably growing gap between the popular expectations raised by such propaganda, and the possibilities to deliver, must have contributed to the declining popularity of politicians and Parliaments across the democratic world. This creates an opportunity for the proponents of a limited government to inject a note of realism and to explain that under such a system these are individuals who are the best problem solvers, and that an extended state, by crippling their initiatives and by distorting their incentives, is the main source of problems in a society. There is a lot of empirical research which shows this, and which should be used in the anti-statist campaigns.

Not only the public but also a large part of social sciences display a statist bias. This refers to many philosophers (Hegel is just a prominent representative of this group),

² This is why I have published in Poland in 2012 a selection of essays under the title: *Discovering Freedom. Against Brainwashing*. The book sold more than 30 thousand copies so far. In this essay I am drawing on my introduction to this book.

sociologists and economists. Much of modern economics is based on the assumption that the state, by definition, aims at maximizing social welfare and corrects various market failures. This scientific deification of the state overlooks ample lessons of history and ignores the basic fact that the more expanded has been the state, the worse were results in terms of “social welfare”. The discipline of public choice of James Buchanan and Gordon Tullock, which restores a common-sense by pointing out that politicians and bureaucrats who populate the state are just normal human beings, still has to penetrate more deeply into social sciences. The same goes for the thoughts of wise men of the past. Take James Madison (1757-1836), the first President of the United States:

If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary (Madison 1788).

Or take Frédéric Bastiat (1801-1850), French economist and philosopher:

Government is the great fiction through which everybody endeavors to live at the expense of everybody else. But the thing that never was seen, and never will be seen or conceived, is, that government can restore to the public more than it has taken from it (Bastiat 1848).

Against the popular and scientific deification of the state, one should stick to its classical definition as put forward by Max Weber (1922), whereby the state is an organizational apparatus on a given territory which has there a monopoly of legitimate force. Not every unit conventionally called “a state” meets this Weberian definition, which suggests that one needs a more extended typology of political units to deal with a complex reality. However, this definition has basic advantage: it is *Wertfrei* (value free) and thus prevents the deification of the state.

3. INDIVIDUAL FREEDOM AND INSTITUTIONAL SYSTEMS

The term “freedom” is especially burdened by many, sometimes, conflicting meanings. It is partly result of a political manipulation of this term, e.g. the life under the Soviet regime was officially declared to be the most free.

Another reason for confusion is that freedom is often equated with wealth, and the lack of freedom with poverty (as criticized by F.A. Hayek, 1960). Finally, the multiple meanings are due to an unfortunate practice of many philosophers to use the term “freedom” with respect to very different spheres of reality, e.g. internal versus external freedom. This is why one should specify what part of reality one refers to, when using the term “freedom”.

In the following, when speaking about freedom, I will have in mind the relationship between individuals and the state. This is the basic dimension of individual liberty in contemporary world. Another one is the relationship between individuals and various groups (or public opinion) which exert pressures upon them.³ These two dimensions of freedom were distinguished in a classical essay by J.S. Mill (2001/1859).

³ In some societies these pressures are very powerful: a drastic example is the caste system in India.

Freedom in the relationship between individuals and the state is a variable: i.e. depending on the type of regime, individuals have more or less liberty. A simple way of operationalizing this variable is to connect it to the nature of the institutional regime and to assume that the more types of individuals' feasible actions are treated as crimes (i.e. threatened by state's sanctions), the less freedom have the individuals in their relationship with the state. In other words, the extent of freedom is inversely proportional to the length of the list of types of actions, treated as crimes by the state.

The next step is to distinguish two types of crimes:

- ① political crimes, i.e. crimes against the rulers or a political regime;
- ② ordinary (non-political) crimes.

Institutional systems differ, first of all, in the length of the list of **political crimes**. This list was especially long under Soviet socialism (communism) and this was not an accident. The constitutive feature of such regime is the monopoly of state-ownership of enterprises; and this requires, first, nationalizing the inherited private enterprises and then prohibiting them, i.e. declaring private economic activity a crime. To maintain this basic prohibition one also has to prohibit, i.e. to declare as crimes, other freedom acts such as setting up independent non-economic organizations or independent newspapers, etc. (for more on this see Balcerowicz 1995). Therefore, a democratic socialism is a utopia. To enforce these prohibitions, a prominent role of political police (e.g. the KGB in the USSR) was necessary; ordinary police was also used to prevent and punish crimes against socialism.

In non-socialist dictatorships, private economic activity does not constitute a political crime. However, all other actions perceived as threats to those who hold the monopoly of political power (e.g. the monarchy, the army, the mono-party) are still on the list of such crimes. Therefore, a strong political police, directed against the opponents of the monopolistic rulers, is an indispensable element of these regimes, too.

The list of political crimes is the shortest under democratic capitalism, and, correspondingly, the role of security apparatus is the smallest in this type of institutional system. However, the threat of terrorism tends both to increase the list of political crimes and to strengthen the position of this apparatus. It is an example of a classical conflict between liberty and security.

The lists of **ordinary crimes** contain common elements across various regimes, e.g. killing and robbing other members of a given country is everywhere regarded as a crime. However, there have been also substantial differences in these lists regarding sexual behaviors—e.g., compare the treatment of homosexuals in 19th and 20th century in the West, or between contemporary Western countries and some Islamic regimes. Other differences refer to the extent of economic regulations in various systems. I will return to this topic when I discuss economic freedom.

Measuring the extent of freedom by the length of the list of types of actions treated as crimes by a state is only a first approximation in an attempt to operationalize the liberty in the relationship between individuals and the state. A more elaborate analysis, especially regarding the political crimes, should consider the severity of the state punishments and the level of their enforcement. Regimes which punish these crimes more severely and/or prevent them more effectively, should be regarded as less liberal (or—in other words—more repressive) than those which impose less severe sanctions and/or are less efficient in prosecution of political dissidents. In these respects Polish socialism after 1956 was less

repressive than that, say, in USSR or in East Germany, even though in all these cases private ownership of productive assets was considered, in principle, as crime. One should also remember that in the socialist regimes, where the political rulers are not subject to the constraints of the rule of law and where they are large distributors of benefits, such as jobs, ranks, apartments, consumer durables and various budgetary entitlements, the state capacity to punish (i.e. to restrict the scope of freedom) goes well beyond using the criminal justice system, as the disobedient individuals can be punished by depriving them of these goods. This is why socialism was even more anti-liberal than judged by its formal legislation. More generally, any state which is a big owner has an extra power to punish and to reward its citizens, i.e. to produce its own clientele. This is, of course, not the only way to achieve these effects. Another one is to produce legislation which gives privileges to various groups, a practice which is widespread under most capitalistic systems. However, having the formal ownership rights gives the political decision-makers a tempting and easy way of running an informal reward-punishment system, and of using the state owned enterprises for their political purposes, e.g. financing prestigious but financially dubious projects.

4. POLITICAL AND CIVIL LIBERTIES

Individuals participate in various spheres of social life. This is why one speaks of various types of freedom: political, civil and economic. Let me briefly discuss political freedom. This type of freedom is inextricably linked to democracy. And democracy is best defined following Schumpeter (1962/1942) as an elected government, i.e. as a system whereby personal succession in the political power proceeds via free elections, i.e. elections based on open and reasonably fair political competition. Elections without open competition are not democracy but pseudo democracy.

There are various theories which praise (or condemn) democracy. The one which especially appeals to me was put forward by Karl Popper (1988): “Anybody who has ever lived under another form of government—that is, under a dictatorship which cannot be removed without bloodshed—will know that a democracy, imperfect though is, is worth fighting for, and, I believe, worth dying for”. I would add that there have been many justified criticisms of the deficiencies of contemporary democracies. However, many critics dream of replacing imperfect democratic system with a perfect non-democracy, while there have been many awful dictatorships and the worse among them were much worse than the worse democratic systems. Therefore, while trying to reduce the weaknesses present under democracy, one should rather work within its institutional framework.

This framework includes extensive civil rights, i.e. freedom of assembly, of speech, of religion, of the media, of association. There is no open political competition (i.e. democracy) without such rights. Therefore, political and civil rights constitute a system. Besides, civil rights have an independent value, i.e. they matter also under non-democratic system.

Extensive civil rights give rights to various groups and non-economic organizations which are often called “civil society”. Some of them are apolitical, i.e. they group people who want to pursue certain private goals, e.g. helping less fortunate individuals, or mutual assistance, or watching birds. Some other groups are politically-oriented—their main ac-

tivity is serving the ideological or pecuniary interest of their members by exerting pressure upon the political system.⁴

It is the composition and the resulting balance of pressure groups which matters the most for economic freedom. The problem is that this balance has been often detrimental to economic liberty, even though the reduction in its extent sooner or later hurts the interests of millions of people. It is this problem to which I now turn. But first I have to discuss briefly the very concept of economic freedom.

5. WHAT IS ECONOMIC FREEDOM?

Broadly understood, economic freedom is a set of institutional factors which determine:

- ① how individuals can obtain their income (or more broadly—means of living);
- ② how they can spend (or save) this income.

The second component—freedom of consumption—overlaps with personal liberty. In the past some groups, especially the peasants, were legally discriminated against, regarding how they could dress. Nowadays, in the countries of orthodox Islam, women's clothing is heavily regulated, too. In other contemporary countries such legal discrimination of the freedom of consumption of certain groups does not exist. However, there has been a tendency, motivated by ecological, safety or social consideration, to eliminate consumption of certain goods for everybody. Such reductions of consumers' choice are especially visible in the EU, e.g. the ban on the genetically modified food.

However, it is the differentiation in the first sphere—that concerns productive actions—which has been the largest, producing profound consequences for the standard of living of millions of ordinary people. It is also the freedom of productive actions which has been subject of the bitterest controversies in philosophy and social sciences and which has given rise to the most pernicious proposals and policies. Freedom of productive actions refers to:

- institutions regulating work;
- property rights (ownership).

Superimposed upon these two components are institutions which determine the freedom of contract.

Free labor is a relatively new invention of history—slavery and serfdom were widespread in most countries until recently on the history's timetable. It is less known that still in 17th and 18th century, in the relatively liberal England and the United States, the formally free workers were subject to intrusive government restrictions which set their wages, limited their mobility and threatened criminal sanctions for abandoning work (Steinfeld 1991). It was the age of classical liberalism which introduced the liberal right to work (Lomasky 1987), and thus the relatively free labor market. Later developments—the growing influence of socialist ideology and the related increased political role of trade unions—have led to the accumulation of various legal restrictions imposed upon the

⁴ Some of these groups fully or partially overlap with political parties, i.e. some party members are just representatives of certain pressure groups (this has been typical of the peasant parties). Therefore, the pressure groups act both outside and inside the party system.

employers and—thus—to rigid and/or dual labor markets. Greece, Italy, Portugal, Spain show that, during good times, economies with such markets display an upward wage drift, thus eroding their competitiveness, and during bad times (i.e. recessions) produce a surge in unemployment, especially among young people. This is just one example of the negative effects of protective social regulations.

However, it has been the property rights to the productive assets (means of production) where the largest ideological controversies and the most profound practical differences have appeared. The object of the most bitter attacks has been one type of ownership—the private one.

Property rights as an institutional variable constitute a bundle of various legal rights which can be divided into:

- ① the control (decision-making) rights with respect to a given asset;
- ② the rights to benefits, especially to the net income profit from this asset (firm).

We speak of private ownership when these rights belong to private individuals and/or non-public organizations (i.e. those which cannot directly use political power). Correspondingly, public ownership is present when the ownership rights belong to various state organizations at the central or local level. It means that the relevant decision-makers are individuals in their political or bureaucratic roles. Another characteristic of state ownership is that these individuals have legal control rights but not the legal rights to the firm's profit (the illegal participation in state's firms profits is called corruption), while the private owners legally combine the decision-making rights with the rights to profits.⁵ This creates a powerful incentive to increase the private firms profit which is geared towards increasing efficiency and seeking innovations, provided they face sufficiently strong competitors.

6. THE PARADOX OF ECONOMIC FREEDOM

After these conceptual clarifications, I am ready to formulate what I call the paradox of economic freedom:

- ① an extensive economic freedom is vitally important for the standard of living of millions of ordinary people;
- ② however, it is exactly such freedom, and especially private ownership of productive assets, that has been particularly harshly attacked by many intellectuals and the related political movements.

The first issue belongs to the empirically-oriented economics, the second to psychosociology of knowledge or rather—of religion and of quasi-religious secular ideologies.

Massive research and experience demonstrate that the larger is the restriction of economic freedom (taking as the benchmark the liberal systems of the West from the

⁵ This connection is very strong in case of private owner-managed firms. It is weaker with respect to large corporations run by professional managers who are not the main owners. This gives rise to various corporate governance problems. However, even large corporations are much more profit-oriented than the state owned enterprises, partly because they are subject to the control by the capital markets, which is weak or absent in easily politicized state firms.

turn of 19th and 20th century), the weaker are the driving forces of the long-run economic growth, and the more pronounced are the social ills like longer term unemployment or underemployment (for more on this see Balcerowicz and Fischer 2006). And poor countries burdened by various statist systems cannot converge, i.e. they remain poor—at least relative to the advanced economies.

The most radical attack on economic freedom was launched by Marxism, and, unfortunately, it had been largely successful: command economies based on the suppression of private property and markets were introduced by the Bolsheviks in Russia, and then spread by force all over Central Eastern Europe. After the Second World War, the communists in China introduced this system in their country. Many countries of the Third World, especially in the Arab states, in Cuba and in much of Africa, had emulated the Soviet model, helped by the USSR and China. There were some intellectuals who warned that socialism cannot work even before it was introduced (see Balcerowicz 1995). And they were proven right: the largest suppression of freedom in modern history had led to a largest relative decline in the standard of living of the masses, not to mention the psychological costs of living under oppression and indoctrination. However, probably more numerous, and certainly more vocal and acclaimed, were those intellectuals in the West who professed Marxism—the most radical anti-capitalist and repressive ideology, presented as a doctrine of the liberation of the masses. This shows that certain intellectual aberrations in philosophy and social sciences can spread like epidemics. Leszek Kolakowski, a prominent Polish philosopher, has shown how it worked in the case of Marxism. This doctrine has had a quasi-religious nature: on the one hand it sketched, albeit vaguely, the picture of a paradise (socialism), on the other it pointed out what is the enemy that needs to be eliminated on the way to this paradise (private ownership and capitalism). It was not the intellectual value of the Marxism doctrine, but its capacity to attract many frustrated or day-dreaming intellectuals and parts of the masses, which were behind its political success. (The same psychological mechanisms operate in the case of Islamic fundamentalism.) And some of these intellectuals (Lenin, Stalin and Mao Zedong) turned out to be talented and ruthless terrorists who captured their states and turned them into a machinery for consolidating and spreading socialism. One general lesson from this experiment is that one should be very wary of collectivist millenarian ideologies.

As I said, socialism constituted a most radical case of suppression of economic freedom (and—unavoidably—of other liberties, too). However, there have been milder versions of statist systems, which are present in practically all countries, conventionally called “capitalists”. These milder versions can be called **interventionism**. It has four components:

- ① ownership interventionism;
- ② regulatory interventionism;
- ③ welfare state interventionism;
- ④ macroeconomic interventionism.

Under interventionism, private ownership as a general institution is preserved, but it is limited with respect to its sectorial scope or *attenuated* in the extent of rights of private owners.

Many Western economies after the Second World War had a substantial dose of **state ownership** accounting for up to 20%-30% of GDP. It displayed the deficiencies typical

to this institutional form, and all the attempts to increase its efficiency have largely failed. This is why in the eighties privatization was pioneered by Mrs Thatcher in Britain. But it had the largest scope in Italy, where the Mussolini legacy included the largest dose of state enterprises, and in France, in the eighties, where under President Mitterrand a large wave of nationalization was forced through—with catastrophic consequences. However, privatization under capitalism is not completely finished. Most of the Western economies, as well as those of the Central and Eastern Europe, contain some “enclaves of socialism”, i.e. of politically controlled enterprises. They create problems which are usually blamed on the capitalism! This was vividly illustrated during the recent financial crisis. Even though private financial institutions were not immune to this crisis, it were the politicized financial firms which, due to this politicization, turned out to be especially fragile—witness the Cajas in Spain, the Läderbanken in Germany, some banks in Italy controlled by their “Fondazioni” or Fannie Mae and Freddie Mac in the United States.

Regulatory interventionism has been a constant feature of a modern capitalism, which has given rise to a fundamental question of how to constrain the legislators (and regulators). Ample research points out the negative effects of various regulations, especially those which drive up the transactions costs and thus limit the scope of the market, reduce competition, limit the adjustment of the economy to various negative shocks (this is especially true of the labour markets) or encourage an excessive risk taking by individuals and firms and thus contribute to the financial crises. The latter has been the case of many financial regulations and of the monetary policy of the major central banks (Balcerowicz 2012). In an extreme case regulations amount to regulatory expropriation, i.e. the private property rights are so restricted that the situation of nominal private owner resembles that under the outright expropriation (Epstein 1982).

Welfare state interventionism consists in expanding social entitlements and the related social spending. This expansion has been the main driver of fiscal expansion in the most capitalistic economies with the ensuing problems, such the persistent budgetary deficits, increased burden of public debt. In turn economically ill public finance acts as a drag on economic growth (e.g. in Italy or France). When the fiscal disease assumes an acute form, it causes deep recession (e.g. Greece). In addition, many welfare state programmes reduce incentives to work and to save, and tend to crowd out various non-state mechanisms of coping with various risks, faced by individuals and families, including mutual help (for more on the negative effects of overgrown and badly structured welfare states, see Kelley 1998; Sirico 1997; Niskanen 1996).

Finally, by **macroeconomic interventionism** I mean policies based on the Keynesian belief that a free market economy is inherently unstable, i.e. it has the propensity to get into the crises and to stay in this precarious situation. Therefore, only some special macroeconomic interventions can mitigate this tendency and, if necessary, can extract the free market economy from a deep recession. This doctrine had from the very beginning weak empirical foundations—in 19th century capitalistic systems went through recessions from which they did get out thanks to the market mechanisms, i.e. without special macroeconomic interventions (except for the fiscal adjustment, which by its very nature requires a government action). And the same goes for many contemporary economies, e.g. recently in the Baltics. What is more, empirical research suggests that were state policies which largely contributed to financial crises, including the recent one (Calomiris 2009;

Balcerowicz 2012). And the stabilizing value of discretionary counter cyclical fiscal policy was called into question by even mainstream economics. Nevertheless, the recent crisis has provoked a surge in macroeconomic interventionism, especially in the form of ultra easy monetary policy of the major central banks. It consists in keeping the official interest rates at an unprecedented low level and in massive interventions in financial markets, financed by a massive creation of money. The growth performance which has accompanied these policies is rather disappointing and their final outcome is worrisome. It is already clear that they have heavily influenced the expectations and actions of financial markets, thus reducing the quality of the information they supply.

7. THE ATTACKS ON ECONOMIC FREEDOM

I will focus here on the attacks which are present in a contemporary democratic capitalism and which are related to the discussed forms of interventions. As I already mentioned, policies in this regime, i.e. actions of the politicians, largely result from the pressures exerted by the various pressure groups.⁶ Without an excessive simplification, one can divide these groups into statist and liberal. The former are driven by ideological or pecuniary motivations and aim (not necessarily realizing it) at keeping an expanded state or further increasing the scope of interventionism. The latter aim at reducing it or, if successful, at keeping some newly introduced limits on the state. The members of the liberal groups are usually motivated by their beliefs in the value of individual freedom, the rule of law, and the limited state—it is hard to obtain pecuniary benefits from reducing the scope of state actions.⁷ One of the reasons why statist lobbies often prevail maybe the simple fact that—as distinct from the liberal ones—they include groups that are motivated by the prospects of pecuniary benefits, e.g. budgetary subsidies, tax preferences, anti-competitive regulations. And this creates strong incentives.

However, it is also easier for the statist and anti-capitalistic campaigns to mobilize mass emotions, and to translate them into pressures for interventionism. Examples of statist messages include the appeal to “the mentality of the Soviet official”, which I have mentioned at the beginning. Also, in complete disregard of what we know about the various systems, the statist ideologues claim that complex modern economies require more of a visible hand of the policy-makers, and they often mock the idea of an invisible hand, thus displaying their ignorance about the modern science. They also disregard the basic scientific and historical lessons about the general, cognitive and motivational dispositions of individuals, which also apply to the people in power. Such statist messages may appeal to many people for whom the implicit mental model of the economy is that of a household.

⁶ An additional determinant is the personality of the main policy-makers, which is expressed in their different goals and different resistance to pressures. However, even though politicians who aim at reforming their countries emerge from time to time, the “normal” politicians, who just want to be reelected, prevail. This is why balance of pressures is crucial.

⁷ Perhaps except for privatization. However, I am not aware of liberal pressure groups the members of which would have been driven from the expected personal pecuniary gains due to privatization.

The anti-capitalist or anti-market propaganda is full of emotionally-loaded myths. Markets are accused of generating greed, as though there was no such thing as some basic human invariants, which constitute human nature. And anti-market ideologies often confuse invariant human dispositions with a variable individual's behaviour, which is largely determined by the variation in situations. (There is no proof for a naive belief, that socialism produced a better man.)

At the bottom of these and other collectivist and anti-market fallacies, there has been a basic disregard of human nature or—in other words—a utopian vision of a man. Also, the critics of free market blame it for the deficiencies of other, much worse kinds of capitalism, e.g. a crony capitalism where the economic success or failure of the respective firms depends on their connections with the politicians and the public officials. Instead of criticizing such illiberal and unjust regimes, they criticize economic freedom.

Not only simple but emotionally appealing fallacies serve as an instrument of the statist campaigns, but also more sophisticated doctrines developed by some social scientists. I already have mentioned the macroeconomic theories which underpin macro-economic interventionism. However, other social sciences than mainstream economics have also produced doctrines which serve as an intellectual justification for some other kinds of interventionism, especially for the build-up of the welfare state. What I have in mind here is the expansion of the concept of the “rights”, and the related inflation of their lists. Classical liberalism has promoted liberty rights, later called “negative”, as for their existence the state does not need to take any “positive” actions (and to spend money), but only to abstain from various intrusions. The main classical positive right has been the right for individuals' protection by the state against various forms of aggression by other people. However, starting in the 20th century, the list of positive rights has been expanded by the greatly lengthening list of social rights which overwhelm or are confused with the classical ones. For example, in the United Nations *Universal Declaration of Human Rights* property rights are marginalized by an extensive list of social rights. And the European Court of Human Rights in Strasbourg recently recognized the right to welfare as a part of the right to property. Disagreeing with this opinion, Marc Bossuyt, a judge in the Belgian Constitutional Court, stated that “If social support has become a property right, then the judges in Strasbourg have succeeded in making an owner of he who owns nothing. Even Marx had not been able to do that” (Mchangama and Rhodes 2012).

8. HOW TO DEFEND ECONOMIC FREEDOM

It should be clear that to defend economic freedom against the attacks of the statist pressure groups is not an easy task. However, the stakes are high. When such groups prevail and state interventionism expands, there are two scenarios which may happen in succession or separately. First, economic growth slows down to very low levels and longer term unemployment typically increases to permanently high levels. This usually results from the accumulation of anti-market regulations in the labour and the product markets, and the expansion of the social spending which produces high taxation and chronically ill public finance. Among the advanced economies, Italy and France are leading examples of

this category, but the tendencies for increased regulations and increased welfare spending are much broader. The resulting unsatisfactory situation may last for a long time, since generally it is not very painful, the politicians and the statist interest groups usually play a redistribution game and the pain is concentrated only in some groups, especially young people who suffer from long term unemployment. However, the more active among them tend to emigrate, and the other may rely on family assistance.

Against this background, it is quite a challenge for the liberal groups to prevent the statist drift, and, if it happens, to stop and to reverse it. Regarding the prevention, one should try to introduce various institutional limits on state interventionism. For example, the membership in the World Trade Organization and in the European Single Market is such a constraint which limits an easy recourse to an external protectionism. And expanding the Single Market for Services would spread this constraint to the largest sector of the economy, i.e. the services. It is more difficult to introduce an effective constraint on purely domestic regulations, which attenuate private property rights. One may think here about Epstein's (1982) idea to introduce the legal concept of a regulatory expropriation which would empower the victims of excessive regulations to seek damages from the state, thus introducing some elements of economic calculations into the legislative process. Constitutional fiscal constraint on public debt and on spending may help to curb the tendency for fiscal expansion, provided that they can't be easily manipulated. And better accounting rules for the state which would be based on the accrual principle and which would consider the implicit public debt, would act as an early warning system. The same can be said of independent fiscal councils.

To introduce or to maintain these and other institutional constraints on state expansion requires a strong pressure from the liberal groups. Introducing and maintaining these constraints should provide a focus for their activity. Besides, it is crucial that these groups professionally communicate to the public the social costs of already expanded interventionism, which hampers the improvements in the standard of living and produces a high level of structural unemployment. They should expose various fallacies which underlie such interventionism, and take away a high moral ground from the proponents of a large and—often—badly structured welfare state. The liberal groups can and should unmask the moral poverty of this arrangement (Sirico 1997; Niskanen 1996).

The second situation which results from various combinations of state intervention is that of a deep crisis, which manifests itself in a sharp decline in GDP, in a surge of unemployment and—quite often—in a near bankruptcy of the state faced with radically increased interest rates demanded by financial markets. Such a situation may appear in the economies which previously suffered from paralyzing interventionism described above, and which have reached a tipping point often due to an external shock. After years of near-stagnation, a country enters a crisis. Portugal and Italy are recent examples of this category. Or a crisis may follow a boom, fuelled by a popular but irresponsible fiscal policy (e.g. Greece after its entry in Eurozone) or by an excessive growth of credit (e.g. Ireland, Spain, Britain) spurred by various policies which have made it too cheap and thus encouraged risk taking by private firms and individuals (Balcerowicz 2012). Countries which are subject to boom-bust episodes are usually also suffering from various distortions which result from years of regulatory interventionism (see especially Greece).

The conventional view is that crises are bad but that they at least create strong incentives for long delayed reforms. The first part of this statement is certainly true. This is why it is so important for the liberal groups to get stronger and thus to prevent or to reverse policies which lead to a crisis. However, the second one should not be regarded as an axiom: it is not true that proper reforms automatically follow the crisis and, thus, that no activity is required from the liberal groups. The point is that policies which are a reaction to the crisis depend on the professional and popular beliefs as to what have been their roots and what are the right remedies. If professionals and the public identify interventionism as the main reason for the crisis, then, indeed, incentives for proper reforms get stronger. This was, for example, the case in Poland in 1989. However, even in this case, one needs reformist leaders, who not only launch but also sustain the reform effort, and they do not fall like manna from heaven. Also, the incentives to reform may be weakened if—in the name of crisis management or “solidarity”—easy bail-out money is made available to the countries in crisis. Therefore, even in this benign scenario there is much to do for liberal groups.

This is even more true when market reforms—and not policy failures—tend to be blamed for the crisis by competing politicians and the public at large. Then more interventions follow in response to the crisis. One example is provided by Argentina since 2001, where the crisis was blamed on previous market reforms, while the true reason was that they were incomplete, i.e. mechanisms of provinces’ fiscal responsibility and rigid labour markets had been left intact. Another example is Russia, where many people also blamed market reforms for their genuine problems, while the main reason for the crisis in 1998 was an irresponsible fiscal policy and the fact that reformers were not allowed to complete the reforms.

Therefore, for the crisis to provide stronger incentives for the needed reforms, the liberal groups must win the communication battle about what were the root-causes of the crisis and what are the proper solutions.

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