Economic liberalism and social justice

EDITORIAL: ECONOMIC LIBERALISM AND SOCIAL JUSTICE

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Introduction

Economic liberalism and social justice have a somewhat paradoxical relationship: economic liberals tend to be extremely critical of the notion of social justice, yet economic liberalism has enabled the realisation of many of the goals of those who advocate social justice. The liberal institutions of free markets, the rule of law and secure private property rights have been the most successful mechanisms for the eradication of poverty and the empowerment of individual men and women that have ever been discovered. By contrast, attempts to deliberately achieve social justice have led to the immiserisation and disempowerment of many millions of people.

Social justice as an intellectual error

The classical liberal or libertarian critique of social or distributive justice begins by highlighting the fact that the very idea of social or distributive justice implies a deliberate allocation of resources. It implies that someone or some group has deliberately decided what income and wealth each individual or family should receive and that outcome can then be evaluated as either just or unjust. In the words of Nozick (1974, p. 149): 'Hearing the term "distribution", most people presume that some thing or mechanism uses some principle or criterion to give out a supply of things', and that, 'Into this process of distributing shares some error may have crept'. Hence, the concept of social justice would seem to demand that a faulty distribution of resources is corrected by deliberate intervention.

The error of this analysis, however, is that in a market economy, 'we are not in the position of children who have been given portions of pie by someone who now makes last minute adjustments to rectify careless cutting' (Nozick, 1974, p. 149). The resources that would be reallocated in the name of social justice are not manna from heaven that could be divided in any number of ways between any number of people (although if such resources really were manna from heaven then some deliberative process for fairly distributing them would surely be appropriate). In reality, the resources that exist in a market economy are holdings that particular individuals are entitled to possess as a result of their actions in the creation of wealth and the exchange of goods and services. Hence, in the memorable words of Anthony de Jasay, one of the contributors to this symposium, social or distributive justice involves 'slicing the cake nobody baked' (de Jasay, 2002, p. 186).

For classical liberals, then, the notion of social justice is first and foremost an intellectual error – a misunderstanding of how the world works. Indeed, Hayek (1976, pp. 62–63) argued that the demand for social or distributive justice is an example of anthropomorphism, the attribution of conscious intelligence to self-ordering, spontaneous processes that are in fact beyond conscious control.

Social justice *contra* individual liberty

Not only is the notion of social justice fundamentally flawed, classical liberals argue that attempts to realise social justice inevitably infringe people's basic rights and destroy the wealth that is to be redistributed.

The incompatibility of social justice and rights, or material equality and liberty, was famously illustrated by Nozick's (1974, pp. 160–164) account of the wealth acquired by the basketball player Wilt Chamberlain in a fictional scenario. Taking as a starting point a distribution of resources that is considered just (which can be any distribution that the reader happens to prefer), Nozick supposes that the basketball player Wilt Chamberlain signs a contract in which each spectator who watches him play pays a special fee of 25 cents directly to Chamberlain (in addition to the standard ticket price). The fans are happy to pay the extra fee – watching Chamberlain play is worth more to them than 25 cents.

Supposing that one million people come through the turnstiles during the course of a season, Chamberlain acquires additional personal wealth of $250,000. As a consequence of many small and seemingly inconsequential exchanges, then, one individual has amassed a sizeable personal fortune and a new distribution of resources has emerged.

Nozick (1974, pp. 161–164) argues that this new distribution of resources must be considered just because it meets the criteria of 'justice in acquisition' and 'justice in transfer'. The theoretical starting point of Nozick's example was a distribution of resources that was considered just and from that point people voluntarily transferred their justly-held resources to Chamberlain in return for a service (watching him play) that they considered more valuable than the 25 cents each paid. In neither case can an injustice be said to have occurred, therefore the outcome of the transactions described must logically be considered just.

Nozick's example of Wilt Chamberlain's acquisition of wealth illustrates how 'liberty upsets patterns [of distribution]' and inevitably produces inequalities (Nozick, 1974, p. 160; see also Hayek, 1960, p. 85). Where people are allowed to make free choices as to how they use their resources, deviations from any preferred pattern of distribution will inevitably arise. Any attempt to achieve a 'just' distribution of income and wealth must encounter the problem that countless transactions like those engaged in by Chamberlain and the basketball fans will take place and upset the 'just' distribution.

Hence, the only way for social justice to be achieved is to forbid what Nozick calls 'capitalist acts between consenting adults' (Nozick, 1974, p. 163). In other words, social or distributive justice can only be attained where people are forbidden from producing and consuming, buying and selling, as they wish. For this reason, social justice and the basic rights inherent to a free society are judged to be incompatible.

Social justice *contra* wealth creation

Attempts to create a 'just' distribution of resources not only infringe people's liberties, they also destroy the wealth that is to be deliberately distributed. Redistributing resources from those who engage in productive activity to those who do not engage in productive activity removes the incentives to wealth creation and the efficient use of resources. As Buchanan (1997, p. 360) has written, 'Persons will care for, maintain and direct the use of productive resources properly only if there is a reciprocal relationship between effort expended and reward anticipated'. Actions that distort the relationship between effort and reward remove the incentive to undertake such efforts that might bring individual reward and contribute value to the wider society.

Furthermore, the deliberate redistribution of resources distorts the information that is communicated by price signals in a market economy. As has been set out many times (for example Hayek, 1948; Mises, 1951), in a market economy prices provide knowledge of the relative costs and benefits of different courses of action. Without market prices it is impossible to arrive at an accurate relative valuation of the many millions of different goods and services that may be provided, and the many millions of different factors of production that may be used to create those goods and services. Such a monumental feat is beyond the comprehension of any single mind, group of minds working together, or even a super-computer, because the relevant knowledge is not only highly complex but is also inherently subjective, dispersed throughout the economy and frequently tacit.

When prices are distorted by the deliberate allocation of income and wealth to particular individuals or groups, prices no longer correspond to people's relative valuations of different goods and services and this prevents price signals from performing this essential co-ordinating function. Consequently, an economy in which price signals bear little relation to the relative values that people attach to different goods and services will be unable to efficiently allocate resources between different uses and over time the population will become relatively impoverished (Hayek, 1976, Ch. 3; Meadowcroft, 2005, Chs. 2 and 3).

These are the underlying reasons why socialist and social democratic economies tend to be less efficient than market economies and therefore why attempts to achieve social justice tend to impoverish and disempower the very people such policies are intended to help. Hence, if our aim is to ameliorate poverty and empower the least advantaged then a market economy is the most effective mechanism for so doing.

Social justice and economic liberalism

These are the issues engaged with by the authors of the articles in this symposium. In the first article, Anthony de Jasay addresses the theoretical foundations of liberal justice and its corruption by supposedly liberal thinkers. Jasay draws a distinction between *rules* that emerge spontaneously because they are to people's mutual advantage and *laws* that are deliberately imposed on society by those with political authority. Liberal justice is rooted in this first system of conventions that are ascertainable facts of history and anthropology, rather than government-made laws that by definition must have dubious lineage and therefore questionable legitimacy.

Unfortunately, Jasay argues, this liberal order of rules and conventions has been undermined by many of its principal defenders. In particular, Jasay argues that Mill's (1859) harm principle, Rawls' theory of justice (1971) and Locke's theory of property (1689) have all opened the way for the enemies of liberty to undermine the theoretical foundations of genuinely liberal justice, so that today people are deemed to be free to act only if their actions can be shown not to harm others (and almost any act can be judged to harm others), only if their actions can be shown to be within their explicitly stated rights (and such rights have been rendered meaningless by the extension of the notion of rights to include all manner of entitlements) and only if they utilise property the acquisition of which can be shown to have left enough and as good for others (and where resources are finite an individual's possession of property can never leave enough and as good for others).

Jasay argues that the institutionalisation of these erroneous 'liberal' ideas of justice in the modern democratic state centred upon government-made law has led to the emasculation of individual liberty in contemporary societies: there are almost no limits to the scope of collective choice and no means for the individual to protect their own private space from invasion by the state. Nevertheless, Jasay does offer some hope for a revival of liberal justice based upon conventions and rules given that contemporary democratic states were founded upon such rules and conventions; a restoration of freedom may still be possible if we are able to dig back to these foundations.

Any liberal theory of justice that aspires to be comprehensive must engage with the question of restitution. Where it can be shown that property has been acquired illegitimately, perhaps over many generations, or many generations ago, then the long-term economic consequences of such wrongs must be addressed if the distribution of income and wealth in a given society is to be considered just. This is the challenge addressed by Karol Boudreaux of the Mercatus Center at George Mason University in her contribution to this symposium. Boudreaux's article analyses restitution and economic liberalism in South Africa, a country with a long history of legislation that discriminated against the black majority of the population.

Boudreaux examines the empirical example of the land reform legislation introduced in South Africa after the transition from apartheid in 1994. This legislation was in part a response to calls for greater social justice. Boudreaux cites evidence that suggests that the land reform legislation has had little impact in righting the wrongs of the past, largely because only the wealthy and well-connected have the necessary resources (broadly defined) to navigate the judicial process. By contrast, the operation of market forces has had a much more dramatic impact, leading to the diversification of land ownership patterns, encouraging economic growth and promoting rural economic development. As has been the experience in other places and at other times, it is market mechanisms, not government diktat, that are able to realise the goals of widespread empowerment and poverty alleviation.

In the third article of the symposium, Thomas E. Woods Jr. of the Ludwig von Mises Institute focuses on two misconceptions that he believes have added significantly to the confusion surrounding the relationship of economics and morality. Advocates of social justice often take economics to task for failing to give ethics free play in their discipline. Moreover, it is often implied that by following their prescriptions, we could bring about a world in which there need not to be any trade-offs between various human demands, claiming, in effect, that we could have a world without scarcity.

Woods argues that the first misconception involves a serious theoretical misunderstanding of the relation between the various sciences. Economics as a science, which is the study of the market and its operations, has no moral dimension, anymore than chemistry or physics as sciences have moral dimensions. This is *not* to say, as social justice proponents often appear to claim, that such a view of economics commits us to the thesis that the marketplace has no moral dimension. Of course it does. But the marketplace is one thing; the scientific study of the marketplace is another.

The second misconception arises, Woods contends, from a failure on the part of some social justice advocates to grasp the fundamental economic point that we live in a world where scarcity is the norm. Even should every other resource be freely available, as mortal beings our time is an inherently scarce resource. An increase in the overall wealth of society, however desirable that may be, cannot be achieved just by wishing for it. The world doesn't operate according to the laws of magic, and real wealth is a product of work applied to natural resources in the most productive manner. Sometimes, the proponents of social justice give the impression that all manner of things would be well if only we had a just system of distribution. But this is an example of the Garden-of-Eden fallacy which regards the world as a paradise in which all that we need or want is freely available.

The burden of William Luckey's article is to provide some suggestions for the construction of an authentic and authoritative body of Catholic doctrine on social and economic matters. He begins by criticising a certain approach to Church and Papal documents which is both selective and textually naïve and, more significantly, which attributes an authoritative status to those documents that they do not, as a whole, possess.

Luckey is also critical of the attempt to collect and thematise the Social Teaching of the Church, as exemplified by the compilation of the *Compendium of the Social Doctrine of the Church*. As he points out, social teachings are not, just as such, a matter of the discernment of Revelation, but a prudential matter of applying ethical principles to concrete social and economic questions. While Catholics accept that the Church has authority in matters of faith and morals, it doesn't follow from this that its prudential judgments are similarly authoritative nor, indeed, that the Church has any particular competence in technical or scientific matters.

The elements of authentic Catholic social teaching should be based upon foundational Catholic moral theology and an adequate philosophical anthropology. Without a proper understanding of the human person, no social teaching can be developed. Man is a creature possessing reason and free will, albeit that his intellect is darkened and his will weakened.

Human freedom has as its consequence the acceptance by man of his responsibility for his choices, including his economic choices and while respecting man's freedom, the Church has a duty to give him moral guidance. Luckey contends that the implications of the Second Vatican Council's Decree on Religious Freedom, *Dignitatis Humanae*, have not yet been adequately analysed and that this can be extended theologically to defend a free economy. Luckey concludes with a brief analysis of the latest Social Encyclical, Benedict XVI's *Caritas in Veritate*, and claims that Pope Benedict's thinking on these matters can be traced to a latter-day defender of the Romantic School of Economics.

The final article in this symposium by Elaine Sternberg examines a recent argument for redistribution in the name of social justice. This argument, set out by Gar Alperovitz and Lew Daly in their recent book *Unjust Deserts* (2008), claims that since innovation depends far more on accumulated knowledge than on any single individual's contribution, most of the resulting wealth is deserved equally by all members of society. It is an argument that implicitly invokes Nozick's entitlement theory of justice but argues that because wealth creation depends in some sense on the contributions of countless people over untraceable time to the accumulated store of knowledge from which innovators then draw, such innovators cannot claim an entitlement to the wealth that is thereby created.

In her article, Sternberg sets out Alperovitz's and Daly's argument and then exposes its fallacies and errors. First, Sternberg argues, Alperovitz and Daly apply the concept of distributive justice to a realm where such a concept does not logically apply. As noted above in this introduction, the distribution of income and wealth that exists in a market economy is not the result of a deliberate allocation by a central planner but is the result of the spontaneous operation of economic forces and hence cannot be properly considered either just or unjust. Second, Sternberg shows that Alperovitz's and Daly's claim that people have no right to that (for example, wealth) which they have not deliberately created is an unsubstantiated and ultimately dangerous claim which logically gives individuals no right over their own bodies (which they have not deliberately created) as well as their income and wealth. Third, Sternberg shows that Alperovitz and Daly have failed to properly take into account the role of individual freedom, individual achievement and free markets in the process of wealth creation that has benefited mankind during the last two centuries.

Conclusion

The articles in this symposium show that the outcomes produced by a free-market economy cannot logically be considered just or unjust, in the same way that the operation of any natural forces, such as weather patterns or the spread of a virus, are similarly neither just nor unjust. Rather, justice can only ever be procedural, concerning the neutral application of rules and/or conventions that establish the rule of law and protect private property rights (including people's right to a property in their own person).

Paradoxically, perhaps, it is nevertheless the operation of free markets within the context of the rule of law and the protection of private property rights that create the conditions for wealth creation on a societal scale that enables the alleviation of poverty and the empowerment of the poorest members of society. In this way, the goals of those who advocate social justice are more likely to be achieved via the free market than via any deliberate intervention.

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