

# MORAL FOUNDATIONS OF FREE MARKET ECONOMY

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## Introduction

Free Market economy has always been criticized more than other economic systems, like socialism, welfarism Keynesianism and so on. The basic claim against free market economy is this: Free market economy is an immoral economy. The claim of immorality of free market economy is the chief criticism of anti-free market perspective.

Although free market economy creates wealth and prosperity more than commanding economy, it has been depicted as the system, in which man exploits another man, the profit motive is the only value, the rule of money is superior to everything and it makes the world the place of every sort of cruel injustices. Kirzner gives a long list of alleged evils of market economy as follows:

The market system is indicted as feeding and responsible for the *materialistic aspects* of modern society. It is blamed as promoting and permitting the expression of *selfishness and greed*. It is charged with *encouraging fraudulent behavior*. It is denounced as *debasement of the tastes of the public* through advertising, fraudulent or otherwise, leading them to demand products and services which are in fact *harmful and degenerating*. The system is held accountable for *the destruction of the environment*. It is denounced for *destroying the self esteem* of its workers, for generating profound *alienation, despondency and despair* within society, as well as for widespread *insecurity and anxieties*. The *inequality in incomes* which characterizes capitalist countries is denounced as evil in itself and socially deleterious in its consequences. This inequality is condemned as exemplifying the fundamental *injustice* of the market system; it is perceived as expressive of economic *oppression and exploitation*. The market system is made to shoulder responsibility for *racism, for sexism, for imperialism*. The market is given failing grades in its strictly economic functions. It is seen as producing shoddy, dangerous products for *the profit of the businessman rather than for the use of consumer*. It is seen as generating cataclysmic spasms of *overproduction, unemployment and monetary crisis*. It is seen as subverting *the operation of political democracy*. It is blamed for the corruption of government and *for the concentrations of dangerous centers of economic power in big business*.<sup>1</sup>

## Is Free Market Economy Immoral?

Through claiming the immorality of free market economy, collectivist people have expressed their desire for central planning and the alleged horrors of the individual enterprise system. It is an undeniable fact that free market economy creates wealth and prosperity more than any other economic system. But its opponents have attacked it in the name of morality.

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<sup>1</sup> I.M.Kirzner, "The Ugly Market," in M.W.Hendrickson, (Ed.), *The Morality of Capitalism*, New York : The Foundation for Economic Education, 1996, pp. 138-139.

Presenting free market economy as immoral prevents people to understand the value, role and significance of free market economy for human life and liberty. People easily tend to sacrifice their human liberties for the sake of collectivist utopias, like equality and social justice and so on. People must understand the vital importance of free market economy in their minds as well as in their hearts. It is not enough to write the importance of free market in textbooks of economics, the value of free market economy must be written in the hearts and minds of men/women.

Market is one of the most important institutions in human life, but this institution constantly is under attack. People constantly talk about the defending of family or religious institutions. But a few people talk about the defending and protecting market institution against the intervention of state. Market has been depicted as the source of all evils and problems while family and religion are considered as the sources of all virtues. It is so easy to blame market, but these critics offer nothing, except replacing state in the place of market. We need to learn to defend market just as we defend our family or religion. It is not market is the source of all problems, it is state the source of all problems. Market is the source of many solutions for human problems.

We need to question the claim of immorality of free market economy and critically inquire accusations against market. Is free market economy really immoral? Is socialism or planned economy more moral than free market economy? In this paper, I would like to share my reflections regarding the relationship between free market economy and morality.

### **Is the claim of Immorality of Free Market Economy Rational?**

Collectivism mainly attacks free market economy on the basis of morality. According to collectivism, free market economy is a materialistic, selfish, unjust, immoral, brutally competitive and destructive system. Collectivism calls this demon as capitalism. Collectivism demonizes free market economy through the abuse of morality and it does not have any economic model. Defending free market economy against collectivist attacks on technical grounds are important, but it is not enough. It is important to show moral and human dimensions of free market economy and also show immoral and unhuman aspects of collectivism. Collectivist abuse and misuse of morality makes ideologies, like socialism, emotionally and morally very attractive to people's minds and hearts. Because of this attraction, many people have voluntarily sacrificed their lives for the sake of socialism, classes society and social justice. In fact they are nothing except the roads to serfdom, not freedom. But we do not see no one dies for free market economy.

Collectivism is successful about making attractive and appealing accusations against free market economy. But there is a strong irrationalism behind these claims. All these blames suppose that human life and market can be designed rationally, morally and spiritually. For example market can be designed in a spiritual way in order to reduce materialism. Considering market as something can be designed for a higher purpose is an illusion. Neither market nor human life can be designed. Designing human life and market is the false and dangerous desire behind all these claims. All these claims imagine an utopic world, in which there is no market but every virtue exists. We are living a real world with its imperfections and deficiencies, not in an illusionary world with perfection. Free market economy is not an utopia, it is one of the central realities of our life. Sacrificing this fact for the sake of collectivist illusions opens ways for our serfdom. First of all, people, who attack market system, not only attack an economic system, but also they attack human life, liberties and economy itself. The denial of market system is not only the rejection of economics, but also it is the denial of human life itself. Socialism as the collectivist ideology

is a denial of human life, it is also a false religion of immorality. Socialism as a whole means the whole disappearance of liberty and morality. We must talk about the immorality of socialism, because morality and humanity are the aspects of free market economy. Free market economy is the only moral stronghold of humanity against collectivism.

All these moral critics have existed in every period of human history. Human being faces moral problems everytime. We cannot consider free market economy as the source of every moral problem. Market economy is an human institution among many. It is not the only institution, which determines human life. There are other institutions, like family, religion, school, state, culture and so on. We must take other human institutions to our consideration when we deal with human problems.

### **Ethics and Economics: Is There any Relation between them?**

Lionel Robinson defines economics as follows: "Economics is the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses."<sup>2</sup> Economics is the study of human action in marketplace. Ethics is a human science which deals with the rightness or wrongness of human action. In other words, ethics and economics have common subject, which is human action, human decision and human choice. Most of our daily ethical decisions are economic decisions. The quality of human action, which could be right or wrong, determines and shapes our economic life. Economics and ethics cannot be divorced from each other. Economics and ethics cannot be replaced by one another. They are very much closely and mutually related, because both sciences are humane disciplines. Recognizing the relationship between ethics and economics does not mean to formulate economics in the form of ethics and vice versa. Economics has its own laws and mechanisms, such as demand-supply, and so on. But their differences do not mean that they have no relation at all. Morality, economics and markets are subjects that properly can be related only to human individuals.

As a matter of fact, both morality and economics are about right or wrong. Morality is about right and wrong behaviors. Economics also is about human action, which deals with right or wrong actions regarding exchanges, productions, sellings, buyings and so on. The most important thing is that individual should decide what is right or wrong in economics as well as in ethics. The measure of economics and ethics is liberty. What makes morality moral and what makes market free market is liberty. The very function of ethics and economics is to relate our internal and external worlds with each other in a way to actualize our aims, ideals, needs and desires as much as possible in liberty.

### **Free Market: The Product of Human Design or Human Action?**

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<sup>2</sup> M. Blaug, *Great Economists since Keynes: An Introduction to the Lives and Works of the One Hundred Modern Economists*, Totowa, N.J.: Barnes and Noble, 1985, p. 205.

Free market can be defined as an economics system in which human individuals are having mutual, free and voluntary relations, people are free to make contracts according to their self-interests, property rights are protected and government intervention is kept at a minimum level. Mises says that “What does this system of economic freedom mean? The answer is simple: it is the market economy, it is the system in which the cooperation of individuals in the social division of labor is achieved by the market. This market is not a place; it is a process, it is the way in which, by selling and buying, by producing and consuming, the individuals contribute to the total workings of society.”<sup>3</sup>

Free market based on human reality. Private property is the fundamental institution of being human and free market economy. Private property is not the source of all evils as socialists claim. Naturally we incline to have private property. A child consider his/her toys as his/her private property and protect them as much as he/she can. The abolishing of private property is something immoral and cruel. Through the use of our private property, we can keep the fruits of our labour and ability. If someone seizes our private property, such as our house, car or computer through force or stealing, there would be no motivation for us to work. Because at the end of our labour, we are going to gain nothing as private, which only belongs to us. The recognition and respect for private property is not only an economic matter, but also it is a moral requirement. Without private property, there is neither creativity nor civility. Private property is not a privilege of capitalists. Through private property, an effective production and division of labour is possible. Everyone gets benefits from private property, because it assures the effective and economic use of our means. Free market economy is a moral tool, which serve for human betterment.

People are free to buy, sell, own, exchange and consume anything to which they have a right to have it. Free and voluntary exchange is a good way for satisfying the needs of individuals rather than governmental intervention or central planning. Free market economy protects private property and allows individuals to exchange, buy, sell, use, consume and produce their private properties according to their own desires. Protecting private property means that the means of production are in the hands of individuals, not in the hands of state.

Economy is human action in market. Free action is my action. Interventions to my free actions make my actions no longer mine. Intervention or planning makes market a project of human design. My actions are valuable as long as they are free and they are mine. Freedom makes my actions valuable and moral. The absence of intervention and coercion is necessary for free action. Morality requires that my actions must be the manifestations of my free choices.

Free market economy is not an invention of Adam Smith. It is true that Smith wrote the most important book about free market economy. Karl Marx also wrote his famous book *Das Capital*, in order to kill free market economy. Free market economy is not a production of Smith's thought. Marx also could not kill free market economy. Smith's thought is the production of free market economy. Free market economy is not an invention. Adam Smith discovered it. It has already existed. Smith, who is the professor of ethics and morality, just discovered and explored it. Free market economy is not a product of human design, it is a system of human action. It has started from the beginning of human history, has lived with human being and will continue as long as human life exists. Free market system is not a product of central planning. If free market economy was designed, it would be a great work of human mind. As Hayek says, “I am convinced if it were the result of deliberate human

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<sup>3</sup> L.V.Mises, 'Socialism', in M.W.Hendrickson, *The Morality of Capitalism*, New York : The Foundation for Economic Education, 1996, p. 127.

design, and if people guided by the price changes understood that their decisions have significance far beyond their immediate aim, this mechanism would have been acclaimed as one of the greatest triumphs of the human mind.”<sup>4</sup> Free market economy is not the product of an artificial human project, it is the natural result of human action.

Free market economy is totally a product of human actions. It does not work as a result of state planning or intervention. Every individual economic action is important in the market and it has influences beyond individual consequences. Adam Smith expresses the nature of free market as follows: “As every individual, therefore, endeavors as much as he can both to employ his capital in the support of... industry, and so direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention”<sup>5</sup>Smith used the metaphor of *invisible hand* in order to express the real nature of free market. ‘Invisible hand’ represents unplanned behaviors of individuals, which create free economic life.

### **Human Inequality and Free Market Economy**

It is always claimed that free market economy creates inequalities. In order to eliminate human inequalities, free market economy must be abolished and a system of commanding economy, like socialism, must be established. All collectivist ideologies have promised to realize the myth of equality. Lenin gave this promise as follows: “The whole society will have become a single office and a single factory with equality of work and equality of pay.”They always use the mirage of social justice in order to attract masses to their collectivist ideologies. Although collectivism gives the promise of human equality, commanding economy have never actualized human equality. The promise of human equality always remains a dangerous collectivist delusion, nothing more. Instead of realizing the promise of equality, collectivist ideologies had destroyed all human liberties and created their own version of inequality. They made everyone equal in slavery, but ruling elites of collectivist regimes had become superior to society. Free market economy does not give the promise of equality, but it protects and promotes liberty.

Equality and liberty, collectivism and individuality are not compatible. In free market economy, everyone must have equality in terms of opportunity, not in terms of skills and works. Everyone has his/her own unique abilities, skills and expertise. No authority could make everyone equal in terms of skills and abilities.

Free market economy is based on freedom. But socialist utopia promises equality. Collectivist economic utopias creates its own inequalities. They destroy both liberty and dignity together. They create a new class of rulers, whose economic and political power is unlimited. Collectivist economy destroys the power of consumers and

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<sup>4</sup> F.A. Hayek, ‘The Use of Knowledge in Society’, C.Nishiyama and K.R.Leube, (Ed.), *The Essence of Hayek*, Stanford, Calif.: Hoover Institution Press, 1984, p. 122.

<sup>5</sup> A.Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. 1, Ed. R.H. Campbell and W.B. Todd, Indianapolis : Liberty Classics, 1981, IV.ii.9.

businessmen. Omnipotent state and rulers are the productions of collectivist economy. Neither society nor individual get benefits from commanding economy.

Human inequality is not the production of free market economy. As a matter of fact, human beings have never become equal in economic life. Free market economy does not create inequality, but minimizes inequalities through distributing wealth through free market system. Distribution of wealth through state only deepens the gap between rich and poor. But in free market system everyone receives what they deserve. In free market economy people get rewards for their works and productions. They are free to use the fruits of their labours. People can choose suitable works for themselves. Their work could bring them happiness or misery. In free market system, it is not work, but idleness makes people unhappy and alienated. In free market economy free entry and free exit from jobs and careers is possible. There is a social mobility. Poverty or wealthy are not natural, eternal and unchangeable positions. There is a constant change in status and power in free market economy. Poor people could become rich, rich could become poor, the children of rich men could become poor and so on. Everyone has a chance to gain a new status and lose his/her former status. Everyone is free to change his/her status. Individual is the only one, who could make this change happen. Free market economy gives freedom to us to choose the career we want to pursue. But in commanding economy, it is not individual, who decides, but state decides on our behalf what we should do, because it determines our economic decisions and life.

But in commanding economy neither free entry nor free exit is possible. Because state decides for individuals what job they should do and when they should retire. In commanding economy, human inequality is an unchangeable destiny of human life while free market economy makes changes, ups-downs possible in human life. In other words, free market economy does not eliminate the state of inequality, but minimizes the negative effects of human inequality.

### **Should State Rule Economy?**

It is already difficult to manage our individual lives. It is impossible to manage or control the life of others. People must manage their lives as long as they do not give harm the life of others. No one is appointed to manage the life of others. Also no one is commissioned to manage free market as well. Controlling free market means the controlling of human actions in free market. Belloc writes that "The control of the production of wealth is the control of human life itself."<sup>6</sup> Individuals are only responsible to manage their lives and their actions in the market. Human individual must be free to act and to pursue their own choices rather than choices dictated by others. We must be free to choose our ends. Furthermore, we must be free, within limits, to choose what we consider to be the most suitable means to our ends.

Economics, education and religion have been seen as fields, which should be controlled, ruled, planned and directed by state by some people. But they forget that a government, which rules economy, rules human individual and society. Separation religion from state is important, but not enough. Separation of economics from state as important as separation of religion from state. Controlling economics, religion and education means to make human being someone else's. Being free in market, religion and education means to be the owner of himself/herself. If state controls economy, the result will be disaster for human individual. Leon Trotsky expresses this fact as follows: "In a country where the sole employer is the State, opposition means death by slow starvation: The old principle: who

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<sup>6</sup> Cited in F. Hayek, *The Road to Serfdom*, Chicago : The University of Chicago Press, 1994, p. 97.

does not work shall not eat, has been replaced by a new one: who does not obey shall not eat." It is obvious that commanding economy, which is controlled by state, changes the fact of government is made for man by making man is made for government.

Free market does not work according to the total plan of a central government. It works according to individuals who makes their own planning. Only an individual could plan his/her life. Everytime he/she could make changes in his/her plans. This is what freedom is all about. There is no supreme authority, who could know all our needs and make a plan for all of us. They only make a plan how to enslave us, not free us.

Socialism is equal to immorality. Without free choice, individual good cannot be obtained. Socialism tries to actualize the good of individuals without their free choice. Free market economy is productive as well as moral because it is based on free human action and choice. Compassionate is an individual aspect. People, who have private property and use their profits, are more compassionate than state. Socialist economy leaves individual to the compassion of state. Dependency and bureaucracy are the chief aspects of socialist economy. Compassion and charity does not come from human heart, it is expected from state and state imposes its own pseudo-compassion from above.

Individual is not the creation of government. Free market gives opportunity and freedom to everyone to use their private property the way they want to sell, buy, exchange, produce, consume and so on. Individual could choose the way in which he/she wants to live in society. Individual is able to choose his/her career, he/she is free to do what he/she wants to do. Controlling of economy is not an usual affair of the state. Economics and politics are unseparable. The absence of market means the absence of freedom. We cannot protect freedom of expression, academic freedom, freedom of press, religious freedom without economic freedom. Totalitarian and authoritarian forces first destroy our economic freedom in order to abolish our other individual liberties. If a government directs and plans economy, first it would destroy market, then make all other freedoms disappear.

Socialism requires a government, which controls, sells, buys, distributes, guides and directs all economic activity. Planned economy is not an economy model, it is the application of dictatorial power. This is state egoism. It is the declaration of saying that 'state is God, as state bureaucrats we are having God's power.' Planned economy claims to be God, because they try make humans unhumans. There is no moral justification for central economic control. Socialists believe that they will manage the needs of whole society. Free market economy is very humble and modest. It says that individual could only manage his/her affairs, not the affairs of others. This is very modest and humble position. This is not egoism or selfism. This is the essence of free market humanism.

### **Corruption, State, Market**

Corruption is one of the greatest problems of human life. Corruption destroys our economic life and then the rest of our lives. How to minimize corruption in economics is a mysterious question, which has no certain answer. Today corruption has become an unofficial policy in many countries. In most countries government and corruption seen as the same. Government corruption has been defined as "the sale by government officials of government property for personal gain."<sup>7</sup> State itself is the source of corruption. As a matter of fact, state does not want to prevent corruption for the benefits of society. State bureaucrats think about

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<sup>7</sup> A. Shleifer, R.W. Vishny, "Corruption", *Quarterly Journal of Economics*, vol. 108, no. 3, 1993, p. 599.

themselves and they prefer to protect corruption as the constant situation of state, because the continuity and institutionalisation of corruption is their interest. State does not take action for our benefit, but mostly takes action against corruption “... for the secret reason of private benefit—that is, one pretends to favor the public interest but is in fact favoring his own pocketbook.”<sup>8</sup> Statist societies are the most corrupted ones, like Communist and Fascist countries. The commanding economy creates and intensifies corruption in state institutions and oppresses society. The intervention of state to economic life opens every door for corruption: “If the government controls financial markets, foreign trade, access to foreign exchange, and access to many goods provided at subsidized prices (such as telephones, water electricity, credit, and imported goods), bribes will often play the role in allocating scarce goods and resources that prices are not allowed to play.”<sup>9</sup> State creates systems and mechanisms, which encourages and motivates people to corruption, like paying bribes at the first place. Most times people pay bribery to government officials in order to pass the barriers of bureaucracy. Shleifer and Vishny draws attention to this point as follows: “Government officials often collect bribes for providing permits and licences, for giving passage through customs, or for prohibiting the entry of competitors.”<sup>10</sup> State officials have no much reason to prevent and fight against corruption. But private sector always faces the threat of reduced profits. In order to protect its profits, private sectors prefers honest employees, not people, who use systems and mechanisms for their personal benefits.

### **Free Market Economy and Materialism**

Economic activity is a strategic activity among the different activities of men/women. Economic activity is a means, which leads to all our ends. Menger writes that “An imperfect satisfaction of needs leads to the stunting of our nature. Failure to satisfy them brings about our destruction. But to satisfy our needs is to live and prosper. Thus the attempt to provide for our needs is synonymous with the attempt to provide for our lives and well-being. It is the most important of all human endeavors, since it is the prerequisite and foundation of all others.”<sup>11</sup> If we successfully manage the integrity of our economic life, it would be a builder of our spiritual and material worlds. If we use it wrongly, it would be the destroyer of our ends.

Free market economy does not create materialism, but it only satisfies material needs of man/woman. Free market economy is neither religion nor ideology. Material needs of men only satisfied only through economic progress and creation of wealth. Materialism is a manifestation of an important aspect of human nature, it is not a production of free market.

Although free market system provides means for individuals to satisfy their material needs, we cannot describe free market system as materialistic. Free individuals will decide whether they will use their material profits for the sake of spiritual or materialistic ends, it is up to them. Free market economy does not impose a specific philosophy of materialism or spiritualism. It leaves to individuals to decide about spiritual and material ends. Human individual could use his/her material profits for higher moral or spiritual purposes. It is not the task of free market system to force people to behave in spiritual or materialistic ways. Free market economy gives opportunity and freedom to individual what he/she wants, but it does not impose of particular thinking of what individual has to want. The first one is freedom, the second one is totalitarianism. People must be free to use

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<sup>8</sup> G. Tullock, “Corruption Theory and Practice,” *Contemporary Economic Policy*, vol. XIV, no. 3, 1996, p. 11.

<sup>9</sup> V. Tanzi, “Comments,” in K.A. Elliot, (Ed.), *Corruption and Global Economy*, Washington : Institute for International Economics, 1997, p. 167.

<sup>10</sup> Shleifer and Vishny, “Corruption”, p. 599.

<sup>11</sup> C. Menger, *Principles of Economics*, New York : New York University Press, 1976, p. 77.



their material gains according to their particular religions, values and morals. The absence of freedom of choice makes us unfree, immoral and unhuman.

Free market economy does not kill body or soul. It aims to satisfy material needs of human being. People, who satisfy their material needs, could satisfy their spiritual needs as well. As Wicksteed says, "A man can be neither a Saint, nor a lover, nor a poet, unless he has comparatively recently had something to eat."<sup>12</sup> As a matter of fact, free market economy makes possible to feed body as well spirit. Socialism kills human body and spirit together. Free market economy serves to the interests of human being in order to give him/her opportunity to be alive bodily and spiritually.

Although free market economy is the most suitable means for the satisfaction of our economic needs, we should not forget that free market economy is not a universal remedy for spiritual and moral problems of men/woman. It is an appropriate tool in economic life. Most people suppose that attacking market and attacking materialism are the same things. As a matter of fact, they are two different things.

It is also supposed that market creates and promotes dangerous materialist values. According to some people, in order to prevent market materialism, market must be corrected, moralized and spiritualized by state and religion. Market is not something, which could be corrected by state or religion. Totalitarian ideologies invade the lives and minds of people in order to correct 'false conscience' of people. Similarly, totalitarianism attempts to invade our life in order to correct false market. Correcting market is a myth, which opens ways for totalitarianism. Instead of correcting market, market must be left to individuals.

### **Free Market Contributes to Morality, not Immorality.**

Free market economy has effective economic mechanisms, which create wealth and distribute resources, preserve liberty and have important moral consequences. It provides an environment for people to be moral. Free market economy based on freedom of choice. Individual is free the way he/she wants to act, buy, sell, produce and exchange and so on. Freedom of choice is requirement for moral life. The absence of choice means the absence of morality. Free market economy provides a free environment for freedom of choice and respect freedom of conscience.

Human activity in market must be moral. A moral human activity makes free market work. Marketplace is not a location where all liars, cheaters, robbers, thieves and dishonest people gather. It is a place, which requires honest persons. Free market economy requires moral standards. Saying free market economy is not compatible with moral standards is a dangerous illusion. Free market is a process, in which people must show their morality, not immorality. The function of the market is not to provide a moral doctrine, but its function is efficiently to produce and allocate demanding goods and services. Market as a system and institution cannot be corrected through external intervention. State has no job to correct or moralize free market. It is human action, not market, must be corrected by religion, morality and values.

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<sup>12</sup>P.H.Wicksteed, *The Common Sense of Political Economy*, London : Macmillan, 1910, p. 154.

Free market economy does not have a specific doctrine of morality. In other words, there is no free market moralism. But it does not mean that free market economy is a morally neutral tool, it has moral significance. It strengthens our moral sensibilities. It is the interest of individual to be moral in free market system. Free market economy is not a system of morality, but it has moralizing influences over individuals.

People show their moral or immoral characters in market place. Every virtues and vices can be seen in market, because markets are composed of individuals. Moral individual makes market a moral place, but market itself does not moralize or immoralize individuals. Market transactions do not occur beyond individuals. Contracting for joint benefits presupposes a high level of moral integrity and faithfulness on the part of all the parties engaged in transaction. There is no morality in contracts in socialist system, because there is state control and decrees compulsion instead of trust between free individuals.

Free market economy is a system of human action and relation. We cannot test morality or immorality of free market economy itself. But we can test the morality of human action in the market. Free market economy prefers moral individuals for the effective working of the system. Blaming market economy, instead of its actor is a dangerous distortion.

Morality is the fruit of liberty. Human being could actualize himself/herself in a free society where he/she could make good or bad choices for himself/herself. Free market is the place where individual practices his/her moral choices in the form of economic action freely. Free market economy protects and promotes liberty and morality together. Hayek says that "Economic activity provides the material means for all our ends. At the same time, most of our individual efforts are directed to providing means for the ends of others in order that they, in turn, may provide us with the means for our ends. It is only because we are free in the choice of our means that we are also free in the choice of our ends. Economic freedom is thus an indispensable condition of all other freedom, and free enterprise both a necessary condition and a consequence of personal freedom."<sup>13</sup> Free market economy as the protector and promoter of human liberty in this sense is not a morally neutral tool, because it allies with liberty.

Free market economy is not value free or it is neutral. Free market economy is the system of freedom. There is neither tyranny nor force in this system. Free human action is the beginning, middle and end of the system. Free market system requires a suitable legal and moral framework. Without morality and legality, free market system does not function properly. When free market system works properly the levels of human individuals raises in terms of morality and liberty. Free market system and morality need each other. Morality is a must for market system just as market system is a necessary condition of morality. Morality only grows in a free environment. A free individual could become a moral person. When people could make choices freely and take responsibility for the consequences of their choices, they could be more mature moral individuals. Freedom is the source of all values, including morality. Free market economy does not aim to make individuals as the examples of moral perfection. Free market economy deepens, enhances, and promotes morality. In order to be moral, individuals need to satisfy their material needs. Satisfaction of material needs is a necessary requirement for morality. Free market economy creates opportunities and options for individual to satisfy their material needs.

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<sup>13</sup> F.A. Hayek, "The Moral Element in Free Enterprise," *The Freeman*, 12, 1962, p. 44.

Both free market economy and morality are means, not ends. We should not make morality as the highest end in the form of *moralism* and we should not elevate market to *marketism*. Both morality and free market are not *isms*, but they are vital means, which could help us to actualize our humanness. Individual is the end, market and morality are means, which must be available for his/her service.

### **Free Market: Free Individual and Free Society**

Free market economy have confidence in man/woman. Happiness, creativity, prosperity and peace will be achieved only when each person lives according to his/her will, reason, desire and preferences. People acts as free and dignitary beings in a free market economy. Person are not treated as things and individual respected as human being, who has rights and responsibilities. Free market economy does not reduce human person to a simple element in economic calculation. Human person means more than that. He/she is the creator of market economics. Without human action, there would be neither economy nor market. Free market economy makes human individual as its creator while commanding economy makes state, not individual, its actor. Human individual is a mere number in the statistics of commanding economy.

Free market economy does not make distinction between human values and property values. Instead, it eliminates this artificial distinction and unite property value, which is called private property, with human value. Human individual not only himself/herself is valuable but also what he/sha has is also valuable. Being and having treated as values. Uniting humanity and property in such a way is a great achievement of free market economy.

Free market does not exclude anyone. In free market, every human individual can exchange freely with each other their goods, services or ideas. Every individual is a part of free market. White-black, man-woman, believer-unbeliever, Asians-Europeans all people can participate in free market. Voltaire observed how people went beyond their cultural and religious boundaries and they lived together in peace in the case of London Stock Exchange as follows: "Go into the Exchange in London, that place more venerable than many a court, and you will see representatives of all the nations assembled there for the profit of mankind. There the Jew, the Mahometan, and the Christian deal with one another as if they were of the same religion, and reserve the name of infidel for those who go bankrupt." Free market economy operates beyond racial, sexual, religious, sectarian boundaries. Prejudice in free market has a high cost. Racism, fanaticism or sexism are not preferable positions and attitudes in market place. Free market requires a humanitarian attitude.

The existence of free market is essential for free society and free individual. Free society requires free exchange of ideas, goods and services. There is a great communication of knowledge and services in free market system. Hayek says that market is like poker, which is a game which requires skill and chance.<sup>14</sup> Sharing knowledge, skills and experiences creates progress, novelty and diversity in unexpected levels.

In commanding economy, force is used in order to attain wealth and power. Commanding economy makes some people control society through force and military means. But in free market economy, production is the way to attain wealth, not force. People can get advantages of their productions and wealth. This wealth is not gained through force, but through the voluntary exchanges of their skills, works and efforts.

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<sup>14</sup> See: F.A. Hayek, *The Mirage of Social Justice*, London : Routledge, 1982, pp. 115-120.

Free market economy based on human action. Through constant exchanges, interactions, human attitudes and behaviors can be changed, developed and improved. Sellers need to treat their customers with kindness and civility. Sellers and managers have to treat customers the most pleasant way, because people really matter. Free market is like school, in which people learn how to practice civilized attitudes and behaviours. Being kind and civic serves everyone's interest.

### **Free Market Economy Values Human Knowledge and Human Mind**

Human mind, knowledge and skills are very important for free society and free market system. Businessmen make great investments to universities, think-tank institutions and so on in order to use human knowledge in the most affective ways. Human knowledge and skills are valued highly in free society. Everyone has an expertise and know-how ability. The expertise of millions people contribute to each other in the market process. In a free society and free market economy democracy, culture, religion and free market economy have been criticized by academics, journalists and so on. The best critics of free market economy do not come from socialist countries, but come from free democratic countries, which have applied free market economic policies. In socialist countries, there is no criticism of socialism as well as there is no criticism of free market economy. In socialist countries, socialist intellectuals do not criticize free market economy, they only make propaganda against free market economy. Free market economy allows intellectuals to criticize it. Allowing criticizing free market economy itself prevents free market economy becoming a fanatic religion or totalitarian ideology. Creating and sustaining room for its critics is the power of free society and free market society. Coercive force can only limit, prohibits, punishes, destroys. It cannot create. There is no restriction against productions and exchanges in free market economy. Trial-error system of profit and loss determines which work is beneficial and creative. Socialism suppresses innovation and creativity. Commanding economy looks to the past and imitation while free market economy looks to future and creativity.

### **Is Self-Interest Egoism?**

It is claimed that free market economy promotes and values egoism or selfishness. Self-interest presented as egoism, which is supposed to be a vice. Even collectivist minded people go further by saying that free market make people free from the feelings of caring and compassion. People do not care about other, they just do care about themselves. This presentation of self-interest is a way for demonisation of free market. In fact self-interest is not an ugly egoism. Seeking self-interest is a natural aspect of human action. Self-interest motivates people to act and realize their specific goals and ideals. Collectivism is against everything about individual as *I*. Collectivism labels everything as egoism in order to degrade human individual. To collectivism, it is a shame to say *my* choices, *my* decisions, *my* actions and so on. All *my* decisions, actions and decisions are mine. Collectivism tries to cut the tie between *I* and *my* life. Collectivism extends the definition of egoism to cover every human action. Egoism has no moral meaning, because it is an illusion in the hands of collectivism against human individual.

Seeking profit is not egoism. In free market economy, every individual is free to use his/her profits the way he/she wants. In other words, individual makes profits for himself/herself. In free market economy, all profits go to individuals. Individual decides how to use them. In socialist economy, state seeks profits and uses them. The forceful exchange cannot benefit all. The institution of free market economy implies that that the parties to this

voluntary exchange will not deceive each other. Profit motive leads people to produce and create new wealth. Collectivism promote egoism while free market economy facilitates altruism. Egoism cannot be defined as self interest. We can define egoism as follows: Egoism is a human attitude and action, which gives harms the rights of other people.

The dichotomy between egoism and altruism is not a real one, it is fictional just as the dichotomy between individual and society is not real. There is neither pure egoism nor pure altruism. Individual care about himself/herself as well as care about others. We cannot give up our interests to favour others through force, but it is up to us to develop mutual relations with other people. No one has the right to interfere to our relations in the name of egoism. Egoism is not something, which can be corrected or altruism is not a virtue, which can be imposed from above. As a matter of fact, this is the basic illusion about morality. Many people suppose that it is possible to make people moral or immoral. Designing morality is a collectivist wish. First of all, the idea of designing moral life of other people must be given up.

Social cooperation and self interest does not contradict with each other. Motivation to making profits vitalizes economic life. Smith argues that the necessity of seeking self-interest as follows: "In civilized society (Man) stands at all times in need of cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons... Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them it is for their own advantage to do for him what he requires of them: Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. *It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities but of their advantages.*"<sup>15</sup> Self-interest is not an immoral motive from free market perspective. Socialists have presented self-interest as something low, selfish, greedy and unhuman. In contrast to this presentation, Smith is very realistic and honest about the reality and value of self-interest. Socialists promote a pseudo-moralism while Smith presents a true human reality. There is nothing to be ashamed of self-interest. Smith says something very important here. What Smith tries to show is this: It is legitimate for individual to seek self-interest. Furthermore, she/he can make profits without harming others. Irreconcilable conflict of interests is a myth. "One man's meat is not another man's poison in free market economy." It is possible for individuals to seek their self-interests and do not give harms to other at the same time. Free market economy facilitates for individual to make profits for themselves and other individuals get benefits from their profits. Free market economy is not founded on selfishness, but it is based on individual. But individual and the rest of society could get benefits from self-interest. As long as people earn their livings in moral and legal ways, without harming others, they promote not only individual interest but also public interest.

Self-interest does not mean selfishness or egoism. From seeking self-interest within a moral and legal framework we can deduce humanism, not egoism. The specific characteristic of economic relation is not egoism, but humanism. In an economic relation, both sides can think their specific purposes. But this economic activity is not necessarily limited with them. It could go beyond them. An economic relation can exclude or include

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<sup>15</sup> Smith, *The Wealth of Nations*, vol. 1, p. 16.

many people in society. Many people can realize their purposes through an economic relations of two sides. Economic relation is not impersonal. Free market economy makes economic relation personal and human. It is the commanding economy, which makes economic relation dehumanized and impersonal. Reducing free market economy to a shallow egoism is very wrong. The real basis of free market economy is human action, not egoism. Free market humanism is not on the side of egoism or altruism. It goes beyond this dichotomy and gives fruits of a new synthesis. In this new synthesis, egoism and altruism became not necessarily incompatible, but necessarily compatible. Self interest and moral duty are not against each other. Individual could give anything to society for the sake of self-interest and society can get benefits from self seeking action of individuals immensely. Individual needs society just as society needs individual. Free market economy derives from self-interest, but we cannot make free market economy as selfish or egoistic economy. Free market economy is neither egoistic nor altruistic. Because altruism or egoism could be motives in human actions. It would be better to say that free market economy recognizes humanistic mutuality, which reconciles individual and social interest at the same time.

Free market economy does not ask individual to sacrifice his/her self interest for the benefits of others. It shows the way, in which individual can seek his/her self interest and at the same contribute to others. Self-interest vitalizes economic life, deepens human relations and creates new forms of human cooperations and ties. Through human cooperation, people's attitudes towards each other have been changed positively. People could develop sympathy and fellowship feelings towards each other in market place. The enmity and rivalry could be reduced to a minimum level. Social cooperations and relations in free market could contribute to our human development.

Under socialism, everyone was born and live as a loser. Free market economy is not a system, only benefits to capitalists. Whole society benefits from free market economy. Free market economy give opportunities for rich and poor as well. Free market economy creates new wealth and distributes this wealth among people. In a market, one really must be concerned with the interests of others if he/she wants to advance his/her own interests. As Friedman says, "The most important single central fact about a free market is that no exchange takes place unless both parties benefit." He also says that "If an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it. Most economic fallacies derive from the neglect of this simple insight, from the tendency to assume that there is a fixed pie, that one party can only gain at the expense of another." Free market is a world where social cooperation and voluntary exchanges mutually and beneficially take place. In market place, one's gain is not another's loss. Rather, one's gain is another's gain too. Socialist people manipulate this fact and claim that whoever defends individual freedom, private property and free enterprise in reality defends special privileges of bourgeois class, namely capitalists. Marxists have divided community in two imaginary camps, bourgeoisie and proletarian, whose interests are supposed to be totally different from each other. There is no such society. Our interests are different but they support each other. Free market system reconciles public benefits and private profits with each other. We are getting benefits from each other.

In free market economy, it is not bourgeois or capitalists are in power. The real king of marketplace is consumer. Mises says that "A chocolate king has no power over the consumers, his patrons. He provides them with chocolate of the best quality and at the cheapest price. He does not rule the consumers, he serves them. The consumers... are free to stop patronizing his shops. He loses his 'kingdom' if the consumers prefer to spend their

pennies elsewhere.”<sup>16</sup> All businessmen work to please their consumers. If they fail to satisfy the needs and expectations of their consumers, a disaster waits for them. Businessmen are not people, who give orders. Consumers are the real bosses, who give orders to businessmen. Businessmen only follow and apply these orders. If they do not follow the order of consumers, they will disappear from the market. The ruler in the market is not state buroucrats, but individuals.

In a free market economy, capitalists have no power of compulsion. The primary power, which determines the quality and quantity of productions, is consumers, because consumers reward or punish businessmen through their actions and attitudes. Consumer is the primary concern of businessmen. If a businessmen just satisfies himself/herself and disregards his/her customers, he/she could not stay in market for long. Free market system disciplines self-interest. Entrepreneurs always have to think about the behaviors of customers, their employees, investors and so on. They cannot force people to behave according to their self-interests. They have to convince them about the quality of their products. In free market system customers are important while in commanding economy party commissars or state burocrats are important. Self-interest requires a deep attention to our relationship with others. No sellers, no businessmen no enterpreneur could afford to disregard the behaviors of his/her customers. Everytime he/she must critically reviews his/her relations with them.

### **Freedom and Self-Responsibility**

Liberty for individual means that he/she is free to act in accordance with his/her own desires, plans and conscience. If an individual does not act according to his/her will, intelligence and conscience, this means he/she is subject to the coercive will of an external authority. A free person could be a self-responsible person. Unfree person could only transfer his/her responsibility to authorirty, whom he/she subject to.

Individuals are not using their private properties only for their individual satisfactions. Private property brings the sense of social responsibility in the lives of individuals. Individuals have to employ their private means of production in order to meet and satisfy the needs of consumers in the highest quality. Satisfaction of consumers brings a lot of profits to them. If consumers are not happy with their production, they will face heavy losses. It is generally assumed that only state provides public services as the requirement of public responsibility. Alongside state, private means of productions also exists not only for individual service but also for public service too.

Free market economy is a great force for efficiency. Entrepreneurs get rewards when they serve the needs of their customers in the best way. Entrepreneurs can grow and get great wealth if they deserve. If they stop producing the best quality, other competitors would come to scene and they will decline and be eliminated from the market. Free market economy prizes and rewards personal integrity and responsibility. It protects and promotes the well-being and autonomy of individual. It defends individual against omnipotent power. Free market economy values human individual, not state. Free market economy recognizes individuality as well as sociality of human being.

Free market requires people to be self-responsible in their savings and spendings. It is not desirable for a businessman to spent all his/her profits. He/she must be responsible in his/her spending and must make savings in order to develop his/her current work and start

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<sup>16</sup> Mises, *Human Action*, p. 272.

new businesses. Self responsible people only could control and manage their spending and savings.

Freedom and self-responsibility are closely related to each other. Without freedom, there is no self-responsibility, without self-responsibility there is no freedom. Freedom and self-responsibility do not cancel each other, they require each other.

### **Does Free Market creates a Culture of Consumerism?**

Although consumer is the real boss of free market economy, consumerism is not an inevitable product of free market economy. Free market economy based on liberty. What is important in free market economy is not consuming for the sake of consuming. Individuals must have freedom about what they should consume and what they should not. Free market economy provides many options for customers. People choose suitable options for themselves to consume. In free market people learn what they want or what they do not want. Free market does not force people to consume any product, it is up to people to decide about it.

State as a paternal authority and guardian for everybody has no right to prevent people from their necessary consumption. State or other authorities cannot determine what is necessary or unnecessary consumptions for individuals. Asking state to control the consumptions of individuals is an invitation to totalitarianism. If government starts to control our consumption, it will start to control our life too. Because it starts to determine what is good and bad for us in every area of our life. Market economy is often seen as the creator of the culture of consumerism. Even some people call market as the religion of consumerism. There is a need to make an important distinction here. Criticizing the culture of consumerism is one thing and blaming free market economy for consumerism is quite another thing. It is not free market economy to create the culture of consumerism. Free market economy never asks people to consume for the sake of consuming. Consumerism is something related to human nature, soul and mind. All social, cultural, religious, political, educational and moral institutions, values and practices of a society are responsible for the creation of culture of consumerism. Free market economy is not the creator of consumerism, it is human individual and society to create the culture of consumerism.

### **Competition and Free Market**

Competition is one of main characteristics of free market. Competition keeps human being alive and vital. Competition not only keeps dynamism in market, it also leads people to cooperate together. The road flows from competition to cooperation in market. It is a great fallacy that the absence of competition leads cooperation. In fact, truth is opposite. Where there is no competition, there is no cooperation. In order to produce better products and compete with rival products, companies and businessmen unite their assets and work together.

Competition prevents market from the use of aggression and force. There is neither coercion nor force, except peaceful competition in free market. Economic life based on persuasion and voluntary exchange instead of force and coercion. Competition and cooperation in free market economy show that human freedom can be used without being aggressive. Economic competition is simply the efforts of individuals to gain the most desirable position in the system of social cooperation, which is society.



Every private enterprise competes with other people in marketplace. Competition puts production in the hands of more efficient managers and leads businessmen to produce the best products for the service of others. Competition introduces to market new products or new means for production. Competition increases the material welfare of whole segments of society. Hazlitt writes that “Capitalistic competition, in brief, is the great spur to improvement and innovation, the chief stimulant to research, the principal incentive to cost reduction, to the development of new and better products, and to improved efficiency of every kind. It has uncalculable blessings on humankind.”<sup>17</sup> At the end, everyone receives for what they produce. Competition does not mean warfare, competition is necessary for our welfare. In marketplace, people do not compete with each other for slaughtering. They are competing with each other to provide consumer cheaper and better goods and services in terms of quality and quantity. Competition is not enmity, but it could be a constructive and creative relation, which brings novelty, quality and benefits to our lives.

It is always assumed that the chief characteristics of free market is competition. Of course, competition is necessary for the vitality of free market. But cooperation between individuals is as important as competition in free market economy. Human cooperation creates free market and society. Mises argues that social cooperation and division of labour are interdependent on each other. One cannot be without other. As he says, “Society is division of labor and combination of labor... Society is nothing but the combination of individuals for cooperative effort.”<sup>18</sup> Free market prevents alienation among people. Human relations reduces hostility and enmity. In free market, people see each other not enemy, but partners.

In free market, everyone is working for the service of whole society. Everyone puts his/her skills, abilities, ideas and products in the market for us. An individual depends on other people just as the other people depend on an individual. Everybody serves others and in return other serve him/her. As Smith says, “The most dissimilar geniuses are of use to one another; the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other’s men’s talents he has occasion for.”<sup>19</sup> No individual alone could satisfy his/her whole needs. We cannot survive alone. We need other’s people help, skills and products. Division and combination of human labour is the greatest form of human cooperation. Without division and combination of labour, we would be very primitive creatures and could not survive for long. Mises writes that “The fundamental facts that brought about corporation, society and civilisation and transformed the animal man into a human being are the facts that work performed under the division of labor is more productive than isolated work and that man’s reason is capable of recognizing this truth.”<sup>20</sup> Human action as the form of division and combination of labour makes us more human individuals and makes society more human society. Free market economy is a model, which allows cooperative or competitive interactions and transactions in individual or organisational levels within a legal framework without governmental intervention. Free market economy does not isolate human individuals from human community. As a matter of fact, free market economy is the builder of community, because human actions in marketplace connect all of us to each other. We satisfy our needs through exchanges and trading goods with goods. Marketplace is not a place for solitary person, but people, who

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<sup>17</sup> H. Hazlitt, *The Foundations of Morality*, New York : The Foundation for Economic Education, 1994, p. 306.

<sup>18</sup> Mises, *Human Action*, 143.

<sup>19</sup> Smith, *The Wealth of Nations*, p. 18.

<sup>20</sup> L.V. Mises, *Human Action*, p. 144.

compete and cooperate with each other. Mises says that “Experience teaches man that cooperative action is more efficient and productive than the isolated action of individuals. The natural conditions determining man’s life and effort are such that the division of labour increases output per unit of labor expended.”<sup>21</sup> Through cooperation and exchanges, we satisfy our needs. Human actions in market place save us from very primitive state and open ways for our progress and prosperity. Without competition, cooperation is a myth.

### **Conclusion**

Summing up: Why is free market economy moral? The answer is: because free market economy is a free and human economy. Unhumanness of commanding economy makes commanding economy immoral and unhuman. In terms of freedom, creation of wealth, humanity and morality, free market economy is superior to commanding economies, like economic planning of fascism, communism and socialism. Freedom and morality exist in free market economy while freedom and morality are absent in commanding economy. Freedom is not an end itself. It is the indispensable mean for us to be human in our minds and hearts. Free market economy based on freedom to act according to our conscience in marketplace. Everything is not perfect, something could be ugly and bad in marketplace, but we have freedom to repair our mistakes and misdeeds. But in commanding economy, we have no chance to repair our mistakes. Free market economy gives us freedom to lose and gain. Let leave everything to human action in market, who could act creatively, voluntarily, freely, individually, competitively and cooperatively.

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<sup>21</sup> L.V.Mises, *Human Action*, Chicago : Contemporary Books, 1966, pp. 157-158.