

## **Myths of Libertarianism**

### **A. Free market capitalism is the greatest engine of economic growth in human history.**

This myth is perhaps the most prevalent in Libertarian circles, and is easily disproved when you look at the history of economic development in the West and the level of government intervention in the economy. The stunning growth of the American economy in the 19th century had little to do with unregulated capitalism. As Cambridge economist Professor Ha Joon Chang notes, America was the most protectionist country in the world until World War Two. In fact, as Chang outlines in his book, **Bad Samaritans**, every industrialized economy on the planet grew astronomically by strictly regulating markets, by government investments and by the protectionism of key industries through nascent stages of development. As former head of the World Bank Joseph Stiglitz ,points out, the countries that adopted free market reforms under IMF 'structural adjustment' policies failed miserably and poverty increased.

The underlying theory upon which libertarians base their support for free market capitalism presupposes equal bargaining power between buyer and seller, no serious externalities, no public goods that markets can't properly price (Joan Fitzgerald's piece in the report "What the Free Market's Can't Do" discusses one – water). Bankers have far more knowledge and power than bank customers (witness the subprime deception); corporations have far more power than citizens seeking health insurance. Labor markets can't compensate for disparities of power.

The conditions of the ideal market model adequately describe ordinary retail markets where there are plenty of restaurants, supermarkets, choices of soap and consumers are competent to shop for price and quality . They don't characterize the markets in health, education, labor, finance, or technological innovation.

The government regulates to counteract market failure. It taxes to provide revenues to pay for public goods that markets under provide at affordable prices, such as education, health, research and development. Government passes laws to protect workers rights to form unions and prevent discrimination on grounds unrelated to

the performance of workers (such as race, ethnicity, national origin, sex, age, or sexual orientation).

Government can invent things that markets never would have imagined. Apple, for example, piggybacked on government investment in advanced semiconductors and the Internet. America's biotech industry's success was reliant on massive government investment in the Human Genome Project and other basic research. Commercial broadcasters were disinvesting in radio as a serious medium of news, public affairs, culture, and humor, before public radio, partly underwritten by government, NPR demonstrated that ingenious and high quality noncommercial programming could attract an audience that for-profit companies did not know was there.

Finally, the market itself is a creature of government. Laissez-faire was planned. Without states defining the terms of property ownership and commerce, creating money, enforcing contracts, protecting patents and trademarks, and providing basic public institutions. In fact, the capitalist system is impossible without government. Thus, the practical question is whose interests the state serves.

**B. Private companies are inherently more efficient than government because there is a profit motive.**

This is true only if you define profit as the only measurement of success. Take health care for example.

Among the 17 countries considered by the National Health Service of England, the United States healthcare system was among the least efficient and effective.

The National Health Service (NHS) is not designed to create profit, it is designed to provide health care and it does it far better than a for profit model.

**C. The rich need tax cuts to be encouraged to spend and create economic growth during times of recession.**

The facts on this one are squarely against Libertarianism. While many rich people do indeed create economic growth, in times of recession they cannot be counted on to rescue the economy as Libertarians have forcefully argued. As David Cay

Johnston reported in Reuters, during the peak of the recession in America, business held on to their money rather than spending it:

IRS data suggests that, globally, U.S. nonfinancial companies held idle money that could be creating jobs, or funding dividends during the recent recession.

**D. The US has the highest standard of living in the world and everyone wants to be American.**

Again, provably false. America is a great place to live for a lot of people, but the people who benefit from highest standard of living in the world are in Norway - a highly socialistic country. America has one of the greatest levels of wealth inequality in the West and has over 46 million people living in poverty - not an endorsement for American style capitalism.

**E. America is a capitalist economy**

While it is true that much of the population lives in a relatively free market economy in America, the overall structure of the economy is anything but free, and the higher up the wealth ladder you get, the more the government intervenes.

The whole economy has been socialized since the Second World War. The idea that the economy is based on entrepreneurial initiative and consumer choice to an extent is true. For example at the marketing end, you can choose one electronic device and not another. But the core of the economy relies heavily on the state sector, and transparently so. For example, the last economic boom was based on information technology that come from computers and the internet. Computers and the Internet were almost entirely within the state system of research, development, and procurement for about 30 years, before they were handed over to private enterprise for profit-making.

**F. Adam Smith is a source of revealed authority and dogma and his 1776 work, The Wealth of Nations establish that markets work perfectly and government can only worsen outcomes.**

This is doubly ironic because in Smith's earlier book, **The Theory of Moral Sentiments** (1759), he acknowledged a necessary role for government, which he also conceded in **The Wealth of Nations**.

The New Deal reversed the Jeffersonian premise that small government maximized the general welfare. It was a response to the market failure of the Great Crash and to the abuse of power by plutocrats at the expense of the middle class. In order to insure better outcomes it is necessary for the public to evaluate what serves the "general welfare" by making public services affordable and widely available and insure that public policies reduce inequality where it undermines rewards based on a meritocracy. The role of government in protecting people against things they cannot protect themselves from is the essence of self government. Government serves to improve Americans' lived experiences as a result of laws and safeguards that assess existing and proposed rules pragmatically on their merits rather than on their assumptions about their effects on the economy. The discarding of market oversight by deregulation requires a theoretical belief that businesses seeking to maximize profit will not cheat their consumers because they will be penalized in lost business. That was what Alan Greenspan believed before he acknowledged his mistake.

Libertarianism has demonstrated its bankruptcy as a practical and intellectual project. Global climate change has been accurately described as history's worst case of market failure. The Free market can't accurately price energy and its byproduct pollution. The financial collapse was the result of the libertarian assumption that we could rely on markets to create innovative financial instruments and price them properly. Alan Greenspan, the libertarian icon and worshiper of Ayn Rand, publicly acknowledged that his faith in the libertarian premise of market self-correction was wrong. His faith in the magic of unregulated markets had been so strong that he discounted the fraud perpetrated by mortgage lenders as something that would be fixed by consumer market correction. Ultimately the economy averted a depression only because government came to the rescue.

The libertarian invisible hand, the hand of corporate power, produced an extreme income maldistribution that is not justifiable on the grounds of efficiency or fairness. Libertarians in power strip our country of public services that markets can't provide and that the economy and society need.

## **G. Free markets are the sublime expression of human liberty.**

In the idealized libertarian world, individuals are ‘free to choose’ – never mind that some are born with far more resources with which to choose than others. In the Friedrich Hayek/Milton Friedman world, government, except for its minimal role of keeping the peace and protecting property values, is the enemy of freedom.

Beyond assuming away inherited disparities, the Hayek-Friedman equation of markets and freedom leave out the role of government in promoting affirmative liberties.. A young person from a poor family who does not need to incur crippling debt to attend university is a freer person. A low-income mother who cannot afford to pay the doctor attains a new degree of freedom when she and her children are covered by Medicaid. A worker who might be compelled to choose between his job and his physical safety becomes freer if government health and safety regulations are enforced. The employee of a big box store who can take paid family leave when a child gets sick is freer than one whose entire life is at the whim of the boss; likewise a worker with a union contract that provides protection from arbitrary dismissal or theft of wages. An elderly person saved from destitution by a government-organized Social Security pension has a lot more liberty than one bagging groceries at age 80 to make ends meet, or one choosing between supper and filling a prescription. An aspiring homeowner who doesn't need to spend countless hours making sure that the mortgage won't explode is freer to spend leisure time on other activities if government is certifying which financial products are sound and is prohibiting other kinds.

## **H. Federal regulation has a negative impact on employment and is particularly hurtful to small businesses.**

This argument indicates an indifference to concerns over the value of workplace safety, public health and the environment. Such an inquiry about jobs should specify particular regulations in question and examine their employment effects in balance with the objectives targeted by the proposed rule. It would weigh the effects on jobs against the consequences to participants in the sector, i.e. workers, owners, consumers –to determine the regulations likely overall impacts.

This is not the inquiry in which these opponents of regulation choose to engage. Whether it is the oil drilling moratorium following the BP Deepwater drilling disaster in the Gulf of Mexico, an EPA proposal to curb greenhouse gas emissions,

the Dodd-Frank financial reform bill responding to the great crash of 2007, the creation of the Consumer financial Protection Agency or enactment of the Affordable Care Act - all were predicated to be job killers by the U.S. Chamber of Commerce.<sup>1</sup>

This “job-killer” argument maintains that it is confirmed empirically, referring repeatedly to a report authored by Nicole Crain and Mark Crain that is called “the only comprehensive estimate of the impact of federal rules on the U.S. economy.”<sup>2</sup> However, the report is not comprehensive. It focuses exclusively on the costs of regulations without any attention to their benefits or to the jobs created by new regulatory requirements.

The Office of Management and Budget conducted a 10 year study that found that in 106 major regulations for which cost and benefit data were available, benefits were three to ten times greater than costs. For every agency considered, benefits exceeded costs. In June of 2014 OMB reported to Congress that the economic benefits of federal regulations were in the hundreds of millions of dollars over the last decade, while the costs were a mere fraction of that total.<sup>3</sup> Study after study, as Isaac Shapiro and John Irons observed in their critique, show that regulations have little impact, or a slightly positive impact on employment.<sup>4</sup>

For example consider the requirement of automobile companies to reduce air pollution that led to widespread use of catalytic converters. Under these mandates jobs were created in making, installing, and inspecting the converters. Another example would be about banning climate damaging coolants in refrigerators and requiring seat belts. Furthermore focusing only on the employment consequences of regulations ignore the value of increased health and safety and savings to the economy resulting from reduced health services claims.

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<sup>1</sup> “US Chamber: Jobs Argument a Little Leaky” [http://www.fixtheuschamber.org/tracking the chamber//uschamber jobs;argument little leaky](http://www.fixtheuschamber.org/tracking-the-chamber//uschamber-jobs;argument-little-leaky)

<sup>2</sup> “Regulation Nation: “The Obama Administration’s Regulatory Expansion vs jobs and Economic Recovery” Testimony of Senior Vice President William L. Kovacs, Environment, Technology and Regulatory Affairs, U.S. Chamber of Commerce, Committee on the Judiciary of the U.S. House of representatives, September 20, 20123, [https://www.uschamber.com/testimony/regulation nation:Obama administrations regulatory expansion vsjobs and economic recovery.](https://www.uschamber.com/testimony/regulation-nation:Obama-administrations-regulatory-expansion-vs-jobs-and-economic-recovery)

<sup>3</sup> Benjamin Goad, “Regulations \$863 billion in benefits?” The Hill, June 5, 2014; [http://thehill.com/business a lobbying/208394 white house regs yielding billions in benefits](http://thehill.com/business-a-lobbying/208394-white-house-regs-yielding-billions-in-benefits)>

<sup>4</sup> Isaac Shapiro and John Irons, “Regulation, Employment and the Economy: Fears of Job Loss are Overblown,” Economic Policy Institute, April 12, 2011, [http://epi.3cdn.net/961032cb78e895dfd5\\_k6m6bh42p.pdf](http://epi.3cdn.net/961032cb78e895dfd5_k6m6bh42p.pdf)

As for the Chamber’s assertion that new rules contribute to employer uncertainty, new rules to eliminate toxic materials, improve safety in the workplace, or write contracts in plain language provide clear standards by which employers can confirm to avoid liability.

**I. What does the world’s most successful entrepreneur say about the role of government?**

Bill Gates says that innovation is the reason our lives have improved over the last century by making the world better. Major innovations are the result of both government investment in basic research and the private sector creativity and investments that turn them into transformative products.<sup>5</sup> “I’ve heard some people argue that life changing innovations come exclusively from the private sector. But innovation starts with government support for the research labs and universities working on new insights that entrepreneurs can turn into companies that change the world. The Public sector’s investments unlock the private sector’s ingenuity.”<sup>6</sup> The twin miracles of the microchip revolution and the internet – were made possible by U.S. government research which made it possible to make computers accessible and affordable. That is why most of the leading hardware and software companies are based in the U.S. Accelerating innovation requires political leadership and private sector leadership.

What made the moonshot possible was the transformation of political rhetoric into breakthroughs. “It requires a clear, measurable objective that captures the imagination of the nation and fundamentally changes how we view what’s possible. It requires marshaling the resources and intellect of both the public and private sectors. When we do that we chart a course for a future that is safer, healthier, and stronger.”<sup>7</sup>

This collaboration can create a better community, nation, and world by (1) providing everyone on earth with affordable energy without contributing to climate change, (2) give every student and teacher new tools so all students get a world-class education, (3) protect the world from future health epidemics and (4) develop a vaccine for HIV and a cure for neurodegenerative diseases. Private enterprise alone can not accomplish

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<sup>5</sup> “Accelerating Innovation with Leadership” by Bill Gats, Trend (The Pew Charitable Trust 2017) pp 44-45

<sup>6</sup> Id. P 44

<sup>7</sup> Id. P. 45

these goals because they do not meet the goal of maximizing profit in the short run.

K. Liberals want to take money from those who earned their money from work or venture capital and give it to people that don't want to work, pretend to work, don't make as much income as they desire or don't have initiative to start a business. There are plenty of jobs for people who want to work and programs to train people for skills necessary in the workforce. Income redistribution doesn't work as demonstrated by the fall of Communism.

This argument presupposes that people without jobs or with low income lack ambition or are at fault for their poverty. It presupposes that without regulations that natural market forces will make jobs available with a livable wage. However, regulations became necessary in order to insure labor standards, governing the length of working hours, safety at work, or job security. Most workers who willingly take "bad" jobs do so because the alternative is starvation. There may be high unemployment and they cannot find any other job. Perhaps they are not attractive to any other employer because they are physically stunted or illiterate due to childhood deprivation. Perhaps they are migrants from rural areas who have lost everything in a flood and thus are desperate for work – any work. But, they have no choices under the circumstances.

What makes people poor in poor countries or states is their low productivity, which is rarely their fault. Whereas the mistaken stereotype is a belief that poverty is the result of laziness. What is most important in determining national productivity is the capital equipment, technologies, infrastructure and institutions that a country or state has, which are not things that the poor can provide.

Libertarianism begins with an assumption that all humans are by nature selfish and primarily concerned with their economic self interest. It ignores other aspects of our personality such as self sacrifice, compassion, generosity to strangers, and sacrifice in battle. It ignores the fact that we are naturally social animals whose health is improved by our social connections whereas loners and people who are isolated have a lower average life expectancy. It is our trust in one another that enables an economy to succeed and endure. If we were constantly concerned whether we could trust our employees, fellow workers, or our institutions to

prevent cheating, then our society would collapse. Good management provides significant autonomy to their employees to contribute their ideas in order to improve performance. The feeling by employees of being trusted and justifying their trust provides worker satisfaction and low expensive job turnover. For many employees their job satisfaction based on mutual trust is more important than a higher salary.

Libertarianism is flawed in that it assumes a one size fits all economic ideology for all situations. Libertarians presume that anything that the government does that private enterprise can do better. This ignores the high quality of teachers, police, firemen, government accountants who take pride in the quality of their work even as they may make more money in private enterprise. This ignores the research and development done by government that contributed to the knowledge revolution and the success of private businesses in genetics and the internet. The Social Security system is the most efficient insurance program in the world in that the cost is miniscule compared with the disbursement of benefits, unlike private insurance companies.

My first job as a lawyer was to work for the legal aid and defender society representing people that could not afford a lawyer. The quality of lawyers for this agency was excellent. We attracted lawyers from several elite law schools who wanted to use the law to help people who were often victims because of their poor education or inability to have help from experts in the law. We frequently took cases to the United States Supreme Court to insure equal protection under the law.

For every one of you who have had a bad experience with government agency employees, do you believe that those behaviors aren't present in private industry? Quality control exists in government and fairly paid employees like doing their job well for their sense of self respect whether or not they are working for private enterprise or government. Government employees often work long hours when they are understaffed in order to do their job well.

Federal employees lose their job regularly for not doing their job well. Look at the number of staff members that have been fired by President Trump. Many of these are people who gained their reputation in private business They didn't become incompetent within six months of becoming a government employee. President

Trump himself was elected president because his constituents believed that his private business experience would make him qualified to be president. However, many of his supporters are beginning to question his competence, integrity, and his capacity to evaluate expert opinion.

The choice is yours. You can discount the wisdom of qualified government employees in passing laws and regulations that serve the public interest based on their conscience. Or you can put your faith in the invisible hand of the market that reflects the way we spend our dollars without regard for the human consequences. If the arts can not be supported by ticket sales, then the government has no role in encouraging the arts. If the unemployed can not support their children in preparing for a productive life because their job doesn't provide a living wage, then that is not a concern of society. If people lose access to health care because they can't afford it, then that is an acceptable libertarian outcome.

Some things free market capitalism can do better than the government. Some things the government can do better than private enterprise . Libertarians ignore market failure and the value of regulatory oversight of private business practice. They demonize any government involvement as paternalistic or socialism whether or not it improves the quality of our lives or works more efficiently than free market capitalism.