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EFFICIENCY, GROWTH AND THE PURSUIT OF SOCIAL UTILITY

by

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Abstract:

This paper discusses and analyzes the claim that laissez-faire policies achieve greater efficiency and growth, which in turn provides overall social utility. This paper outlines and defines the terms used in the defense of laissez-faire policies and shows that this defense is suspect on all grounds. That is to say these policies do not provide greater efficiency, growth, or overall social utility. This paper argues against the questionable claim that a laissez-faire economy attains greater efficiency and growth. Further, even assuming that it did succeed in these two areas, it does not necessarily imply that greater social utility will follow as an outcome.

Terms: Laissez-faire, Efficiency, Growth and Utility.
Introduction:

The thesis of this paper is that laissez-faire policies do not do as well as other more regulated markets in terms of maximizing social utility due to the resulting large inequalities that are characteristic of laissez-faire economies. Laissez-faire policies outline an economic system where private individuals are free to make exchanges and transactions without the interference from the government through methods of regulations and intervening policies. Accordingly, a defense of laissez-faire policies claims that this system functions efficiently through the free-market with minimal government interference through perfect competition and the actions of rational actors and the self-interested motives and competitive actions of producers and consumers. Such policies are also thought to achieve a rate of growth that is beneficial to the societies practicing them. Consequently, as a result of the greater efficiency and growth, overall social utility is achieved. I will argue that in a laissez-faire economy more efficiency and greater growth does not also mean that overall social utility will necessarily result.

The first section of this paper provides a background to the defense of laissez-faire policies on the grounds that they provide greater overall efficiency, growth and utility. The second section provides multiple objections to the claim that such policies achieve greater efficiency. The third section will provide various points undermining the view that laissez-faire policies accomplish greater growth. The fourth section will argue that such policies fall short of providing overall social utility.

I will argue that the defense of laissez-faire policies regarding greater amounts of efficiency and growth being achieved is weak and suspect. Furthermore, even if we assume that such policies do succeed in these two areas this does not also imply that overall social utility will necessarily follow as an outcome. Instead I will suggest that social utility will not necessarily be
maximized in free-market societies due to the unequal distribution of wealth and resources. Therefore greater efficiency only provides greater wealth to some, but not all, in a laissez-faire economic system. What contributes to this unequal distribution of wealth is the application of Mill’s three economic principles of justice, which I will define and elaborate on in section four. I further aim to provide an independent criticism of laissez-faire policies, which states that laissez-faire also fails to provide maximum social utility on the grounds that such policies do not meet the standards of the principle of equity. Therefore, I will show how laissez-faire policies have failed in both these ways, which is to say through the three economic principles and the principle of equity. I will further argue that adverse impacts to the environment that occur in the pursuit of growth will continue to lower the unlikelihood of overall social utility being realized in the future under a laissez-faire economic system.

Section 1: Background

One of the strongest claims used to defend the laissez-faire economic system is that it provides the greatest amount of efficiency and growth for the societies employing this system. This defense tends imply superiority to other economic systems, in contrast to more socialist economies in particular. Further, this argument is used to suggest that this greater efficiency and growth in wealth guarantees the benefit of greater overall utility. Overall this section aims to review the background, terms and data that support this argument.

Laissez-faire economies draw their ability to produce greater efficiency in part from their freedom from government intervention. They are set-up to allow the economy to run itself, and what tends to keep this economy running efficiently is competition. Individual entrepreneurs are motivated to perform in the market in order to gain profits by competing with each other, while at the same time the self-interest of these individuals is also checked by the fluid impacts of
supply and demand determined by both the preferences of the consumers and the available resources for manufacturing. This notion of self-interested motivation as being the key to success has been employed to support the laissez-faire system and has been made famous by the philosopher Adam Smith in his talk of the invisible hand. Smith explains how:

As every individual, therefore, endeavours as much as he can, both to employ his capital in the support of domestic industry, and so to 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 preferring the support of domestic to that of foreign industry, he intends only his own security; and 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. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. (Smith, p.758).

Here Smith’s notion of the invisible hand is describing the effect of self-interested behavior as promoting a laissez-faire economy. The idea is that when all of the individuals are pursuing their own interests they are at the same time contributing to the autonomous nature of the economy and thus helping society function efficiently. There are many reasons to defend this model of the laissez-faire economy, the first being the normative value that it tends to promote, which is a particular idea of freedom. This freedom allows for the autonomy of the market, the liberty of the individual to buy and sell and the independence to compete. Another reason to support this model is the outcomes that it provides. One might argue these outcomes of the free-
market include overall greater efficiency, innovation and growth of wealth.

**Efficiency**

Since I will be discussing the notion of efficiency throughout this paper it will be useful to note what is meant by efficiency going forward. This paper uses the term economic efficiency to refer specifically to Pareto optimality. In order for an economic state to be Pareto-optimal a change in distribution could no longer occur that would cause one person to be better off without making someone else worse off. A distribution is considered Pareto-optimal or Pareto-efficient when no more changes can be made that can improve an individual’s standing without also disadvantaging another. It is important to note here that the measure for defining whether one has become better or worse off is considered to be determined by the individual in question in the terms of their own preferences.

The laissez-faire economic system is considered to be successfully economically efficient in many areas. Its defenders tend to point to areas of particular strength, such as its success in responding to demand, limiting waste, effective use of technology, and the practices for distributing and utilizing labor. The efficiency of a laissez-faire economy’s response to demand comes in part from the application of the price mechanism, which allows for producers to effectively predict and meet consumer demands automatically. This factor helps to determine and set prices automatically through the free-market. Also what is considered beneficial to the free-market system is the threat of competition for the producers, which is argued to function as a check from preventing them from raising the prices too high. Doing so is seen as inviting competition to other producers who will enter the field and undercut established prices.

In regards to the efficiency of limiting waste and effectively using technology, the familiar answer of profit and competition reemerges. What makes a laissez-faire economy so
efficient is the incentive for individual producers to manage their resources to produce the best outcomes in terms of most capital gained. For the producer this means effectively planning the use of material resources so as not to produce any waste and to make the most of everything they have. In terms of technology the incentive is for the producer to choose the most effective technology that will reduce production times and increase the quality of the products made. What drives the laissez-faire economy to limit waste and effectively employ technology is the entrepreneur’s incentive for producing at the lowest cost.

In regards to the economically efficient way laissez-faire markets employ practices for distributing and utilizing labor, competition is again the driving force behind this strength. The freedom of the worker to pursue employment in any area of their choosing and to exchange their labor only for prices they are willing to work for allows for an automatic setting of wages. The competition the laborer faces from other individual laborers produces an incentive for the worker to improve their skills, creating more efficient workers. While on the flipside there is the motivation for the establishment to utilize those skills as efficiently as they can so as to make the most profit while expending the least amount of labor costs. Competition works as an incentive for both employers and workers in a laissez-faire society to work more efficiently.

*Growth*

Another area of strength that a laissez-faire society is said to have is that it creates the greatest amount of growth and wealth. This claim tends to point to capabilities in advancing progress, innovation and overall accumulated wealth. It should come as no surprise by now that the driving force behind this argument tends to be that the freedom given by laissez-faire policies provides incentives for personal gain and competition that in turn promotes this growth. This position suggests that these two factors encourage individuals to take economic risks and pursue
new ideas that lead to growth in wealth and in innovation. The potential for a large amount of personal gain is the real driving force behind a laissez-faire society.

This factor drives individuals to take risky investments, such as the investments involved with developing new innovative technologies that show some potential. It is thought that this incentive is what makes laissez-faire societies so progressive and leaders in development. It is also argued that the potential for gains and competition give people the motivation to work hard and develop dreams and aspirations. This motivational factor of personal gains is what also provides the incentive for individuals to take investment risks, which is considered another factor that allows laissez-faire nations to be some of the leading societies in innovation. The potential of an individual investor getting their money back in addition to a large amount of profit provides the motivation to invest in innovative entrepreneurs that need the capital to try something new or explore the possibility of creating a new market.

Utility

A defense of laissez-faire policies argues that the increased efficiency and growth discussed earlier also produces greater overall utility. This is said to occur because these policies motivate the individual to attain the greatest utility (benefit or profit) at the lowest possible cost. Hence maximum utility is seen as an effect of the greater efficiency and growth produced. In this section I will explain the subjective utility measure in terms of satisfaction. In section four I will attempt to counter the utility defense by suggesting that laissez-faire policies do not do as well as other more regulated markets in terms of social utility.

In philosophy the most famous thinker associated with the notion of utility is John Stuart Mill, who helped to establish Utilitarianism. From this school of thought emerges the principle of utility, which states that actions or behaviors are right insofar as they promote happiness or
pleasure and wrong when they tend to produce unhappiness or pain. Later in this paper I will consider John Stuart Mill’s view that three principles establish economic justice within a laissez-faire system. The three principles that will be discussed are the exertion principle, the transfer principle, and the abstinence principle. I will refute the utility defense by arguing that these three principles form economic injustice by establishing an unequal distribution of resources. I will further argue that the adoption of these principles contradicts his first and most sacred principle, which is the principle of utility. Mill says that, “Actions are right in proportion as they tend to promote happiness, [and] wrong as they tend to produce the reverse of happiness” (Mill, 2008, p.137). But what happens when conflicting principles cause actions that both promote happiness for some and produce unhappiness for others? This is exactly the issue at hand in this paper, where the laissez-faire principles seem to contrast with the first principle of utility, which results in the inadequacy to maximize overall social utility in comparison to other non-laissez-faire market systems.

While most modern economists relay on a measure called Pareto-optimality because this measure is less demanding than the Utilitarian measure of utility because the latter measure involves the comparison of individuals’ level of utility to others and seeks to attain utility maximization, while the former only compares individuals to themselves and just seeks to attain efficiency. This principle of utility seems similar to the notion of Pareto-optimality, in that it is right to take actions leading to improved status of people so long as no one becomes worse off. One can also see the appeal of this principle to free-market and democratic societies, in that the emphasis on the greatest number or majority is already a prevalent notion in decision-making. Schweickart explains how, “Economists once thought in terms of utilitarian optimality- the greatest happiness for the greatest number – but that concept was discarded long ago as
“unscientific.” What was settled on instead was *Pareto optimality* (Schweickart, p.58).

Previously economists attempted to use the notion of happiness for the concept of utility and found the measures to be unempirical and as a result changed the measures to preferences or satisfaction, which we will review next.

The classical definition of the term utility relates to usefulness or benefit. In economics the term utility is understood to mean the ability of a consumer good to satisfy one’s desires. It is important here to note that the measurement of economic utility depends on the preferences of an individual. This means that economic utility does not depend on what is actually more useful, beneficial or best for a person. Instead the measure depends on the person’s desire or preference for one commodity over another. In this sense utility can be viewed as a relative and subjective concept. As such, the strength of utility varies depending on the degree to which an individual feels the desire or preference. In other words, there is a higher utility in allocating a desired commodity to an individual that feels unsatisfied or discontented from the lack of access or consumption of a particular good, compared to someone who is currently satisfied. Also an individual who has a greater intensity of want or desire for the good can cause higher utility. This means those who are most wanting of some commodity, like the poor, gain a greater increase in the amount of utility when they consume the item in comparison to a rich person or someone who has had the commodity previously.

In modern economics there is the concept of marginal utility. Marginal utility is the benefit added from consuming one additional unit of a good. When consuming a good there is a certain level of satisfaction that is gained. The marginal utility is the level of satisfaction gained from the consumption of a single commodity. Thus the marginal utility of an object is the degree to which it is satisfying to an individual when they consume it and the amount of utility it
provides. This marginal utility is a measure of how much utility and satisfaction an additional object has. It is from this understanding of marginal utility that we get the concept of diminishing marginal utility, which still leads to the increase of utility gained however the amount of marginal utility gained is smaller with each additional object consumed. Therefore, the assumption of diminishing marginal utility shows how an additional unit consumed effects the level of utility gained from consumption. As such, diminishing marginal utility shows how the amount of positive contribution decreases in amount with the increase of consumption.

As a result of this concept of diminishing marginal utility we can assume that there is an inequality of utility. In that, the consumption of an object by one who is impoverished will have a higher gain of satisfaction in comparison to the satisfaction gained by someone who is rich. Therefore, greater overall utility would result from giving the poor an object to consume instead of the rich. This notion of diminishing marginal utility would suggest that a more egalitarian distribution of resources would better serve to provide a society with maximum utility. Further, with this assumption of diminishing marginal utility we can conclude that because laissez-faire policies result in large inequalities the overall social utility is not maximized.

To review, the idea that laissez-faire policies provide greater efficiency is supported with the concept of Pareto optimality. Also, such policies are considered to result in greater efficiency and growth because of the motivations given by competition and personal gain. Further, I will be addressing both the Millian (happiness measure) and modern economic (satisfaction measure) uses of utility. Now that I have briefly reviewed and provided the background to the concepts of efficiency, growth and utility, I will next bring to light some concerns of the efficiency defense of laissez-faire policies.

Section 2: Against the Efficiency of Laissez-faire Policies
Although defenses of laissez-faire policies tend to point to the greater efficiency achieved under this system, these arguments are disputable. One may argue that these “benefits” also engender some consequences of their own for societies wielding them. Sometimes the benefits that come from these factors only actually benefit a small few, while bringing more negative consequences for the majority. Furthermore, it may be found that the positive benefits efficiency provides for a society are not unique to laissez-faire societies, raising the question, why choose a laissez-faire economic system? This section aims to explore these ideas and seeks to challenge the defense of a laissez-faire system on the point that it leads to greater efficiency. I will suggest that the greater resulting efficiency is not unique to laissez-faire systems; the same results could be achieved in alternative, more socialist, markets.

One counter to the efficiency argument defending laissez-faire policies relates to issues with the efficiency theorem. The efficiency theorem is used to defend laissez-faire policies. This theorem suggests that when an economy is left alone without government intervention and is in perfect competition with rational actors the economy will eventually achieve Pareto optimality and therefore, greater efficiency. Joseph Heath describes this efficiency theorem or “so-called Invisible Hand Theorem—named after Adam Smith’s famous speculation—” which suggests, “that a perfectly competitive market is also perfectly efficient.” Heath further argues that even if this is true, it is irrelevant, because if even one of the conditions that are required for perfect efficiency is violated, anywhere in the economy, then all bets are off… Thus you cannot take the sort of “general equilibrium” model that is the mainstay of introductory microeconomics classes and use it to generate any sort of presumption in favor of the market as a mechanism for promoting efficiency. (Heath, p.66)

Here Heath is conveying a problem with the efficiency theorem, which is that if the theorem
requires a number of conditions in order to function efficiently, such as a perfectly competitive market. The concern with this efficiency theorem is that it requires conditions that are far from reality. Heath concludes here by suggesting that one cannot make use of such a theorem to support the claim of a particular market's efficiency unless it functions perfectly. This suggestion conveys the ways in which the application of the efficiency theorem used in defense of laissez-faire policies is not a strong defense because such a theorem is not really proving that the market is efficient.

The issue with the application of the efficiency theorem is that in order for it to work it requires a number of assumptions, none of which are compatible with the most common forms of laissez-faire societies. The philosopher David Schweickart has written extensively on the problematic nature of economic justifications for laissez-faire systems. Concerning efficiency, Schweickart writes about how issues that emerge with this defense are related to “the perfect-competition model and the associated efficiency theorem. Under appropriate conditions, a perfectly competitive laissez-faire economy in equilibrium is in a state of Pareto optimality” However “the assumptions necessary to prove Pareto optimality are miles away from reality” (Schweickart, p. 82). Here Schweickart is bringing to light the first main concern with the efficiency theorem, which lies with the group of assumptions that need to be made in order for this model to be applicable.

The next concern for the model and for this paper is how this efficiency theorem, with all its assumptions, works when applied specifically to a laissez-faire economic system. Schweickart further explains how:

The conditions necessary for perfect competition, could not be expected to hold for any plausible reform of capitalism. And these conditions merely establish perfect
competition. Many more assumptions must be made for the efficiency theorem to follow:

The economy must be in equilibrium, an assumption that abstracts from two of capitalism’s most characteristic features: its relentless innovativeness and its cyclical fluctuations. (Schweickart, p.83)

Here Schweickart is highlighting the same issue with the efficiency model, which is that it requires many assumptions in order to work. It assumes for example that the economy it is being applied to is in perfect competition and also that the said economy is in equilibrium. The issue with using such a problematic model in the defense of laissez-faire systems is that such an economic system is rarely ever actually in perfect competition or equilibrium. This is only to mention two of the necessary assumptions that need to be made and because there are many more to add to this list it seems that for now perhaps we should not actually consider the defense of a laissez-faire system’s efficiency made on the grounds of Pareto optimality.

Clearly the application of the efficiency theorem to such a system has some weaknesses if there are so many assumptions that need to be made in order for it to work and if the model is incompatible with the true nature of laissez-faire economies. It should make some wonder why this is even an argument or defense for such economies or why economists have even bothered with its application. Schweickart echoes this concern when stating, “One might well wonder at this point why there is even a controversy. Why are economists interested at all in a model with such counterfactual presuppositions? I would posit” one reason “is ideological: it is reassuring to capitalism’s supporters that at least some form of capitalism is optimally efficient” (Schweickart, p.83). Other reasons Schweickart points to are the professional recognition of economists who find ways to make complex mathematical theorems that apply to models that show us where we fall short of achieving optimization. It seems to me that these reasons for such a defense are
superficial in that they fail to actually bring a strong support to laissez-faire systems. Further, it seems that the application of such a model is more or less used by economists and defenders of laissez-faire systems as a misdirection in capitulating to the perpetuation of an established practice. The problem here is that these defenders should be trying to use reason to make their arguments, not make defenses on the propositions of faulty efficiency models. Further, these defenders should not be going out of their way to construct contrived assumptions and definitions in order to manufacture desired outcomes with slanted analytical methods. This is equivalent to corrupt studies made to show the desired results of those with a political agenda. The academic or scholarly community should not actually entertain such biased analyses and theorems as providing truth, particularly in the defense of laissez-faire economies.

However assuming for a moment that that this efficiency theorem could work for the defense of laissez-faire markets, we might ask ourselves why they could not be in perfect competition. The answer: the notion that laissez-faire economies could ever actually be Pareto-optimally efficient is countered by the fact that they are not capable of establishing the necessary conditions for perfect competition due in part to the natural occurrence of monopolies. Schweickart also addresses this concern and explains how:

Armed with this concept of efficiency, the neoclassical theorist can now proceed to his theorem. But first some assumptions are necessary, for laissez-faire is not always efficient. The most important assumption concerns monopoly. There must not be any. Competition must be “perfect.”…What we wish to do now is understand the basic result, the first fundamental theorem of welfare economics: A perfectly competitive laissez-faire economy, when all markets are in equilibrium, is in a state of Pareto optimality. That is, no output that would be unambiguously more satisfying can be produced from the given
input. No one could be made happier without making someone else unhappier. In essence, there is no deadweight inefficiency in the system that would allow production or consumption to expand in some area without contracting in another. This conclusion does not hold if the system contains a monopolist. (Schweickart, p.58)

Here Schweickart is highlighting one of the most important reasons why we can assume that a laissez-faire system cannot effectively fit the efficiency theorem. Such systems are rarely ever in a state of perfect competition due to monopolies.

Another objection to be made against the Pareto-optimality measure is that this measure does not ensure a high level of social utility. A society that achieves Pareto-optimality does not necessarily mean that the society is also equal by any means. Further, if the society is very unequal and if we are assuming diminishing marginal utility, then this means such an unequal society would not be maximizing social utility even though it is found to be Pareto-optimal. A society can be understood to have attained Pareto-optimality with an unequal wealth distribution, in which a large amount of the wealth and resources have accumulated in the possession of a small few. It is not contradictory for such a society to be seen as Pareto-optimal. Even with an unequal distribution of resources it can still be said that it would not be a Pareto-improvement to redistribute the resources because this allocation is viewed as Pareto-optimal, meaning that there could be no change that would make some people better off without making others worse off. Even if resources were taken from the top one percent of the wealthy and given to the poor, that redistribution would be making the previously wealthy people worse off, so that decision would not be considered Pareto-optimal, even if such an allocation would maximize utility. This example conveys the way in which large inequalities are compatible with Pareto-optimality, and as a result the Pareto optimal measure does not ensure maximum social utility because large
inequalities do not result in maximized social utility.

It can also be objected that the calculation for Pareto-optimality is suspect, in that this term and formula could easily have been formulated with the intent of using it as a defense for laissez-faire policies. Schweickart describes how, “[economists] have carefully defined the concept of efficiency; they have specified the requisite conditions; they have proved the theorems” (Schweickart, p.57). Here my concern is similar to the one previously stated above, which is that these theorems are formulated with the intention of proving laissez-faire policies optimize efficiency. Also some economists are seeking professional recognition for finding ways to show that these complex theorems can work, further that they can work for such systems. Here the methods and motivations for applying the efficiency theorem are done so with the intentions of procuring specific results which prove that laissez-faire policies are Pareto-optimal and can therefore claim that they are also economically “efficient.”

Let’s move now to address the other arguments made in defense of laissez-faire economic efficiency, namely to the claim that such systems efficiently determine and respond to consumer preferences. This is the claim that the free-market is successful in responding to demand through the application of the price mechanism. But what if there is an unequal distribution affecting the price mechanism’s automatic response to the consumer needs? The question would then become, who are laissez-faire policies working efficiently for? Schweickart echoes this concern by highlighting how

the major objection to allocating goods via free-market prices is the observation that the preferences registered are exclusively dollar-backed preferences. The market may be thought of as a form of democracy, in which purchases, in addition to satisfying immediate desires, are votes, votes for increased production of the purchased products.
But if the market is a democracy, it is a democracy not of “one person, one vote” but of “one dollar, one vote.” The more dollars the more votes. No dollars, no votes. 

(Schweickart, p. 86)

The concern here is that since laissez-faire systems by nature entail an unequal distribution of resources, this would also mean that laissez-faire societies with large inequalities would not maximize overall wellbeing because such economies are focused more on meeting the needs of those with the most money. This would suggest that the answer to my previously stated question is that the laissez-faire economy is most efficiently working for the rich. And if we assumed diminishing marginal utility then this is a terrible place to look to maximize utility because it would cost more to raise the utility of rich people than it would cost to raise the utility of poor people. This could be problematic and weaken the claim that a laissez-faire system is efficiently working to meet the demands and preferences of the consumers because not all consumers’ preferences are being taken into account equally. This is problematic because this goes to suggest that those who matter most and whose needs are being met in a laissez-faire society are those who can afford to buy the most, not necessarily the society as a whole. That is to say that the system is responding to the demands and preferences of consumers which is not equivalent with a system responding equitably to the needs of all members of the society. This suggests that where large inequalities exist, laissez-faire policies will not maximize social utility because the economy is focused on working efficiently for only a small part of society with the most wealth.

Next I would question the claim that a laissez-faire system really is efficient in limiting waste as the efficiency defense claims. The problem with this argument is that it does not take into account the waste that is associated from failing businesses. This is a problem that especially arises in laissez-faire economies in which small and short-lived businesses are a dime a dozen.
These sorts of enterprises come to life and die out on a regular basis and such businesses can be said to dispel unnecessary waste because every time a business venture fails the resources and labor put toward the enterprise become lost. It can be argued that the reason this happens so often in laissez-faire economies is because of their nature to produce monopolies. These monopolies make the market inhospitable for small businesses by using extreme tactics like unsustainably lowering prices because they are better able to sustain long-term losses, or stocking products from cheaper, ethically questionable sources. As a result many small businesses end up going out of business, sometimes even before they can get their products on most retailers’ shelves. With all these small businesses failing what we have as a result is a waste of resources that were put toward producing all the products and a waste of all the labor that was put into producing products.

A harder claim to dispute is the claim concerning a laissez-faire economy’s effective use of technology. However one could argue that the goal of developing technology for improved efficiency is not usually synonymous with improving the wellbeing of society and the environment. Schweickart highlights this counter when explaining:

The costs to a community of air pollution are not reflected in the free-market price of commodities produced by a highly polluting technology. If two technologies yield the same marketable output, but the cleaner technology is more costly, the producer has a powerful economic incentive to select the more polluting one. Because the market doesn’t discourage the development of high-polluting ones, technologies tend to evolve in a nonpotimal manner. (Schweickart, p.136-137).

Here Schweickart notes that more economically “efficient” technologies will have a negative impact on the environment. This goes to show that greater efficiency in technologies used in a
laissez-faire system does not necessarily mean that the technologies used will be better for society as a whole. In a way this shows how more efficient technology does not imply that overall social utility will be achieved.

Furthermore, the claim that a laissez-faire economy is also efficient in its utilization and distribution of labor is another point of potential weakness. This claim argues that such an economy is successful in efficiently allocating labor because the system produces motivations for the worker to improve their skills and the employer to utilize those skills. What this efficiency defense fails to mention is the history such economies have of not being able to provide full employment for their workers. In fact as laissez-faire enterprises tend to grow, it becomes a known trend of employers to relocate available jobs elsewhere in an attempt to drive wages down and as a result increase profits. The incentive for this pattern of behavior emerges in laissez-faire societies most frequently in those nations whose governments have interfered by instituting labor laws and work wages. Laissez-faire defenders tend to point to these forms of government intervention as the cause to why they must move the jobs, usually to other countries, where these protections do not exist. As a result of seeking even freer lands, the nations employing laissez-faire systems suffer when unemployment trends become a regular feature of their economies. Therefore, it can be argued that this final claim used to defend the economic efficiency of laissez-faire policies in the allocation of labor is weakened by the trends it produces regarding unemployment.

A further counter argument to the efficiency of laissez-faire systems mainly regarding its success in responding to demand, limiting waste, effective use of technology, and the practices for distributing and utilizing labor, is the counterexample provided by Schweickart. In the book *Against Capitalism*, David Schweickart makes a strong argument highlighting the negative
consequences that accompany these apparent virtues. Schweickart then continues to argue that a form of market socialism he dubs Economic Democracy shows more promise for delivering in these same areas of strength associated with the defense of laissez-faire policies but without the same consequences. The negative consequences of these efficiencies that emerge in laissez-faire policies that Schweickart highlights are the inability for such policies to provide full and stable employment and the nonrational persuasion efforts that go into marketing campaigns.

Schweickart claims that,

It looks as if Economic Democracy and Laissez-faire are comparably efficient. Both are market economies. The price mechanism is in effect, so both economies allow consumer preferences to be expressed effectively. The economies are competitive, with individual firms having concrete incentives to produce with the appropriate technology and with minimal waste or resources. (Schweickart, p.98)

Here Schweickart is describing what he thinks is a comparable market with the laissez-faire economic system in terms of the efficiency success. What Schweickart is aiming to do here is show that in the end anyone should prefer a form of socialist market to any form of laissez-faire system due to the former’s ability to provide the same efficiencies and avoid the downfalls that are trends in the latter. The point of highlighting this counter example made by Schweickart is that these traits used to defend laissez-faire systems are not unique to it. This in turn suggests that if we can accomplish these same goals of efficiency in other market models while avoiding some of the negative consequences laissez-faire systems provide, what would be the reason to put such systems into application? If the conclusions and practices were not based on reasoned analysis it seems they are perhaps personal and maybe even normative, in that there are personal incentives for privileged individuals to prefer the application of laissez-faire policies as a way to secure
power and freedom, among other ends.

To further convey that economic efficiency is not strictly unique to laissez-faire societies focused on optimizing efficiency and growth, I would like to bring to light the study called, “Is there a Trade-Off between Economic Efficiency and a Generous Welfare State? A Comparison of the Best Cases of the Three Worlds of Welfare Capitalism.” This study observes and compares the goals and economic efficiency of three locations employing some form of market economy: the United States, West Germany and the Netherlands. Obviously the United States conveys an example of a laissez-faire system with some regulation, Germany is seen as the corporate form of a laissez-faire society and the Netherlands is the socialist democratic market in the study. The goals that were given priority in the United States were economic efficiency and growth; Germany gave priority to social stability, while the Netherlands gave priority to minimizing poverty, inequality and unemployment. This study found that, “Overall, in this time period, the Netherlands achieved the best performance on the welfare goals to which it gave priority, and equaled the other two states on most of the goals to which they gave priority. This result supports the view that there is no necessary trade-off between economic efficiency and a generous welfare state” (Dirven, p.115). This study shows that Schweickart’s argument, that any form of market socialism should be preferred to any form of laissez-faire society is empirically defensible. Here we find more reasons used to defend laissez-faire systems, namely regarding claims of efficiency, are not completely unique to laissez-faire societies alone, showing that perhaps societies can achieve these goals through other economic models. Thus, we have found a weakness in this efficiency defense because laissez-faire economies do not seem to produce superior results as claimed previously. The next claim we will go on to evaluate and analyze is that of the growth defense.
Section 3: Against the Growth within Laissez-Faire systems

The first counter to the growth justification is the clarification of what this growth does not entail, namely substantive positive factors for society. Such factors as the growth in time individuals have to work on self-improvement or education are not increased as a result of the growth in wealth. One may think that such growth would increase the amount of time that laborers can get back for themselves, in that a profit or pool of resources may mean less time is required for work. But this is not the case. Furthermore, we find that laissez-faire economies are “structured to promote the growth of private consumption, not the “growth” of leisure or the “growth” of better working conditions” (Schweickart, p.158). Here the concern is that such a growth in private consumption is really only portraying a growth in individual spending, which in turn necessarily means that more money is moving from the worker’s pockets and back into the pockets of the producers. Again, this creates growth that is disproportionate in a society causing an increase in wealth only for the owners of the means of production.

Further, this growth does not involve the improvement of the working conditions for these laborers. This means even though the workers are contributing to the increase in growth by increasing their private consumption and thus giving money back to the owners, in turn the owners are not contributing and giving back as well by at least also improving the working conditions. Also this suggests that while there is an increase in consumption, thus an increase in demand, this does not mean that the quality of working conditions for the workers are being improved. It can be assume that with this increase in demand there is also an increase in the production of the products being consumed. This could mean either longer hours or a decrease in production time, which could in turn mean an investment in more innovative and faster technology, and could suggest a decrease in employment opportunities or an increase of workers
being let go. The growth defense of laissez-faire systems seems insubstantial if this growth does not mean the growth of leisure time or improvements in working environments.

The next counter to the growth defense of laissez-faire systems is that this economic system would become insecure without growth, which suggests that growth is required. Schweickart echoes this concern when explaining how the “steady, sustained growth (whether or not it is desirable or even possible) is necessary for stability. Capitalist stability, that is. This conclusion does not bode well for Laissez-faire, because steady, sustained growth (as we shall also see) is far from inevitable” (Schweickart, p.161). If there were not growth in a laissez-faire system then the economy would be unstable. Further, if the stability of the economy depends on such growth this would mean that the society as a whole would never have a say in whether or not the economy ought to continue to grow.

Another issue is that if it is impossible for the laissez-faire economy to continue to grow, then it seems that there will always be a point at which the economy will become unstable. In other words, if continued growth is impossible then we can be sure that there will be an economic crisis to come. This phenomenon has been seen repeatedly in laissez-faire systems seemingly characterized by its fluctuating boom and bust cycles. As always, with the occurrence of a downward trend we find that the only thing that actually resets or reestablishes the economy at such points is government intervention and the deployment of socialist strategies. Ironically enough, the one thing that laissez-faire defenders tend to swear off (government intervention) is also the principal force holding together their economy from periodically collapsing. Greater growth then, is not a defense or benefit of laissez-faire economies but a necessity whose absence threatens to destroy the economy.

Further, if this endless growth under laissez-faire policies does not reach a crisis point
then we can be sure that at least it will lead to some form of a stagnant economic state. John Stuart Mill reiterates this possibility when asking:

Towards what ultimate point is society tending by its industrial progress? When the progress ceases, in what condition are we to expect that it will leave mankind? It must always have been seen, more or less distinctly, by political economists, that the increase of wealth is not boundless: that at the end of what they term the progressive state lies the stationary state, that all progress in wealth is but a postponement of this, and that each step in advance is an approach to it. (Mill, 1994, p.124).

Here Mill conveys the inevitable limit to growth in an economy, noting that a stationary state of some form or another is to be expected in the future.

The inevitability of continued growth in laissez-faire economies suggests that such an economy must always remain progressive. The downside to this is the possibility that perhaps this said progression is not actually desired by the general population. John Stuart Mill had his own view on the subject of the desirability of continued growth in his discussion of the progressive and stationary states. Mill expresses his views of these two states by writing:

I cannot, therefore, regard the stationary state of capital and wealth with the unaffected aversion so generally manifested towards it by political economists of the old school. I am inclined to believe that it would be, on the whole, a very considerable improvement on our present condition. I confess I am not charmed with the ideal of life held out by those who think that the normal state of human beings is that of struggling to get on; that the trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life, are the most desirable lot of humankind, or anything but the disagreeable symptoms of one of the phases of industrial progress… But the best state for
human nature is that in which, while no one is poor, no one desires to be richer, nor has any reason to fear being thrust back by the efforts of others to push themselves forward. (Mill, 1994, pp.126-127).

Here Mill is conveying the perspective of one who does not find the lifestyle of the incessant growing economy as appealing. The endless progress of an economy may actually foster an unpleasant and inhospitable society for the individual. This description Mill provides of the progressive state, echoes the nature of a laissez-faire economy, which maintains automatic functioning through competition and incentives for personal gain. This sort of motivation is what creates the aggressive struggle between all of the individuals in a free-market society.

Furthermore, what is illuminated in the last line of Mill’s quote is that this form of the progressive economy creates the unavoidable winners and losers in society. Essentially the growth defense of laissez-faire policies is not actually a virtuous feature of the system if one considers the requirement for the growth in order to maintain stability, and threat of an impending collapse and the aggressive lifestyle such a progressive state creates.

Echoing Mill’s last point, another counter to the growth defense of laissez-faire markets is the inescapable nature of increased poverty that this system generates. Schweickart reiterates this concern when explaining how “it is not difficult to see how an inegalitarian distribution of wealth (justified or not), when coupled with Laissez-faire, can lead to the paradoxical phenomenon,” that is to say “growth that generates poverty” (Schweickart, p.140). What Schweickart is conveying is the ironic tendency of laissez-faire to increase poverty while also increasing in growth. This concern was slightly touched upon previously in the discussion about the increase in consumption creating the increase in growth. What is happening here is that the wealth of a society begins to accumulate in the hands of the producers and at the same time the
wealth is dispersing from the middle and lower classes. This process shows how this results in an economy that is increasing in growth and poverty at the same time. The concern here is that such a process would reach a breaking point in which the poor would become so poor that they can no longer consume and the growth would halt because no one is buying, and as a result the economy would become unstable. What usually tends to happen in such free-market societies is the application of small forms of socialist strategies that prevent the economy from ever really reaching this point. Once again, ironically enough the one thing that is preventing the laissez-faire economies from collapsing is the one thing they detest, government intervention. However without the government intervening and paying for the poorest of the poor’s housing, food and providing welfare in other forms this class would not be able to continue to buy and consume the products necessary to keep the economy stable. If the government stopped providing all welfare services in such economies, we would have a chance to see this true and dire nature of laissez-faire play out to the destruction often attributed to Marx’s notion of an end of the laissez-faire epoch in history.

The growth defense for laissez-faire is weakened by the negative outcomes that result due to such growth. Regarding this concern of the negative effects of laissez-faire growth and the possibility of class conflict, Schweickart writes about how:

Allowing for the possibility of innovation and growth, can do little to enhance the case for Laissez-faire. In fact, they make it worse. The kind of growth stimulated by the free market is likely to be unbalanced, plagued by externalities, and skewed by an inequitable distribution of income. Its rate is also likely to deviate from optimality. Laissez-faire is structured to grow, and it will grow (whether or not growth is desirable or desired) until it runs up against one or more of the various barriers we have discussed. These barriers,
however, do not brake the growth process in a smooth and natural fashion; instead, they
tend to trigger recessionary unemployment and class conflict. (Schweickart, pp.176-177).
The concern for a society under laissez-faire is the threat of instability if the growth would
discontinue and the negative consequences that results from the growth. These negative
consequences include wealth disparity for society, instability, unemployment and a never-ending
aggressive struggle for society. As we will see next there is an even more impending negative
consequence that results from free-market growth that truly undermines this defense.

The most devastating revelation that tends to undermine the growth defense of laissez-
faire is the corresponding negative consequence of the environmental impact. Here the greatest
concern is that as free-market economies grow, the health and wellbeing of the environment
diminishes. Schweickart echoes this concern when explaining how:

“Two kinds of growth are most often singled out by critics of capitalism as problematic:
the paradoxical growth common in the Third World that seems to increase rather than
diminish poverty, and the growth that seems to threaten our planet’s ecological balance…
Economists themselves have long pointed out that “externalities” or “neighborhood
effects” render certain market transactions nonoptimal. When a transaction affects others
more than those directly involved, either positively or negatively, the market mechanism
does not give an accurate account of costs and benefits. Environmental deterioration is
the commonly cited example” (Schweickart, p.136).

Here Schweickart is conveying the most crucial consequence of free-market growth, which is the
negative impact this growth has on the environment. The concern here is that as growth increases
so does the deterioration of the environment. One reason why this consequence weakens the
growth defense of laissez-faire policies is that even if the economy finds a way to maintain
stability and continuous growth without ever ending there is the inevitable push back that is the environmental constraints. That is to say, a laissez-faire economy can only continue to grow as long as there are resources and an environment for it to grow in. If such free-market policies were to destroy and eat up all these said resources and the environment the end result would in turn be the end of humanity, and ultimately and obviously the collapse of the economy. There is really only so much growth the free-market economy can have before these impacts on the environment begin to start impacting the economy in turn. There is no motivation or interference to prevent the destruction of the environment in such a free-market economy, without some sort of integration of socialist and liberal policy making on such an economic system. How ironic it is, that again the only thing that could save and stabilize a laissez-faire, free-market economy from its own self-destruction is more government intervention.

The impact of the growth of laissez-faire economies on the environment conveys the ways in which such growth has more negative consequences than gains for society as a whole. The reason for this is because laissez-faire economies do not provide environmental protections due to the policies pursued that are free from regulation and rules attainment to production outputs of pollution. As a result laissez-faire policies allow companies to destroy the environment without repercussions. Thus, laissez-faire policies provide incentives to pollute by allowing corporations to choose to employ the cheapest technology for production without consideration of how much that technology pollutes and further, by allowing for companies to pollute waste and chemicals caused by production into the environment. When acting in these ways the companies are externalizing their costs, which results in everyone else having to pay for the cost of polluting. Essentially when this happens companies are subsidized by everyone else because society then has to clean up their messes. Since laissez-faire policies allow companies to
externalize part of their production costs the environment and society as a whole is negatively impacted. As noted by Schweickart, more socialist markets, like Economic Democracy are more likely to provide economic growth without the same consequences caused by laissez-faire policies due to the regulation and governmental protections provided through environmental policies. Furthermore, due to this negative consequence on the environment, laissez-faire policies are less likely to maximize social utility in comparison to other more regulated market systems.

Reiterating and adding to this environmental objection to the growth defense of laissez-faire is Joseph Heath’s thoughts on the subject. Heath suggests that,

There is a perfectly sensible critique of economic growth—in particular, of the way that GDP is used as a proxy for social welfare—which is in danger of being drowned out by all the noise. The problem with GDP is that it only adds up the value of transactions that employ money as a medium of exchange. The cost of environmental externalities is completely ignored (precisely because the effects on the environment take the form of externalities). Anyone who treats economic growth as an overriding policy objective is therefore guilty of committing a “count the benefits, ignore the costs” fallacy.

Furthermore, since consumption is subject to diminishing returns, there is good reason to think that the unhappiness caused by external environmental effects, relative to the welfare gains associated with increased consumption, is likely to become less favorable over time to the cause of increased growth. Thus not only should economic growth not be our sole preoccupation, it should be something that we become less and less concerned about as we become wealthier. (Heath, pp.225-226)

Here the point expressed by Heath is that the costs to the environment caused by economic growth are rarely calculated in the determination of that said progress. Further, the concern
voiced is of this issue of how these environmental externalities are largely ignored by growth claims even though they clearly are providing costs to society. This portrays the ways in which the growth defense of laissez-faire policies is undermined by the impact of environmental costs passed down to everyone else. If there is a way that other economic systems can provide growth while avoiding the environmental costs inherent to laissez-faire societies then I do not see any reason why one would not prefer a more regulated market in comparison.

The growth defense for laissez-faire policies can once again be disputed by the counterexample of alternative economic structures. Schweickart’s example of Economic Democracy offers a more favorable alternative to laissez-faire in the growth area of defense as well. Schweickart explains how he finds that “there are no structural forces to keep the [laissez-faire] economy on the golden path. Reason and experience point to instability. Unless there are extremely important noneconomic considerations in favor of Laissez-faire, its desirability as a societal model would seem to be outstripped by the promise of Economic Democracy” (Schweickart, p.177). Here Schweickart is explaining the free-market’s inability to provide a beneficial golden age of sorts that could outweigh the negative consequences due to the economic system’s nature of instability. Further, Schweickart points to his alternative of Economic Democracy as the solution, in that this model offers similar benefits while avoiding the majority of the negative consequences. If this were the case, then what other reasons exist to support the model of the free-market compared to all others? The answer is that the defense claims that laissez-faire’s greater efficiency and growth also guarantees overall utility for society. In the sections that follow I will dispute this claim by arguing that overall utility is not assured by laissez-faire’s greater efficiency and growth.

Section 4: Against the Overall Social Utility of Laissez-faire Policies
The main claim of this section is that even if we assume that laissez-faire does provide greater efficiency and growth this does not also imply that overall social utility will necessarily follow as an outcome. Instead I will further suggest that greater utility will not necessarily be the outcome due to the failure of distribution methods and that as a result negative consequences are produced, such as inequality. Therefore greater efficiency only provides greater growth to some, but not all, in a laissez-faire economic system. The problem is the focus on the priority of the freedom of the individual over the welfare of society as a collective whole, which causes the focus on quick short term gains for a few that result in future long term losses for the majority. The outcome of inequality and failure to achieve overall utility is caused and perpetuated by economic principles that prioritize the freedom of the individual through laissez-faire policies over the welfare of the collective society. Due to these large inequalities laissez-faire economies do not do as well as other more socialist markets in terms of social utility.

This section will also focus on and analyze the impact of three main utilitarian economic principles characteristic of laissez-faire societies and the principle of equity. I will use the economic influences of John Stuart Mill to support the claim that laissez-faire policies are unable to provide overall social utility due to the resulting unequal distribution of wealth and resources. I will support this claim by showing that the economic principles of justice advocated by Mill, actually prevent overall utility. I will suggest that the value of freedom is present within and perpetuated by three specific laissez-faire principles and that their impact has political, ethical and social consequences. The three principles that will be discussed are the exertion principle, the transfer principle, and the abstinence principle.

Mill advocated for three main principles of economic justice that mirror many laissez-faire policies. These three principles are: the exertion principle, the transfer principle, and the
abstinence principle. The first and most fundamental principle of economic justice is the right of the laborer to the fruits of their labor. Mill calls this principle the “exertion principle” which “affirms the right of producers to the product of their labor” (Nathanson, p.166). The second principle of justice according to Mill invokes the right of economic exchanges. This second principle is called “the principle of transfer” which “affirms the right of people to property that is transferred to them as part of an exchange or as a gift.” The last principle of justice in Mill’s view of property states that those who are more prudent with their wealth, saving the fruit of their previous labor, deserve their greater wealth. Nathanson calls this “the abstinence principle” which “affirms the right to compensation for the abstinence that is required when people invest their wealth rather than using it for immediate consumption” (Nathanson, p.166). Now that I have fully described these three principles, next I will aim to explain how these principles prevent overall social utility in laissez-faire societies.

The impact of these laissez-faire economic principles is that when in application they contribute to the inequality of wealth distribution and it is this disparity in resources that truly prevents maximum social utility from being achieved. The way in which the transfer principle contributes to this inequality of wealth distribution is by allowing for individuals to gift and transfer their possessions and wealth to whomever they wish. This principle tends to be used to allow parents and family members to pass down their accumulated wealth from one generation to the next. The reason why this transfer principle contributes to unequal distribution is that it allows for masses of wealth to begin to accumulate in the possession of a small amount of hands, allowing for the wealth to begin to build-up and accumulate in one area. This is problematic for laissez-faire economies because the continued use of this principle greatly impacts the disparity between individuals in society by allowing for wealth to accumulate and remain in one area,
mainly amongst the upper class. In that, the continued transfer of wealth within one family throughout many generations prevents maximum social utility from being achieved by perpetuating the large inequalities caused by laissez-faire policies.

The abstinence principle also allows for a similar effect to take place in laissez-faire societies. That is to say, by allowing individuals the freedom (from government intervention) to save their wealth and to invest their wealth as they see fit. As a result those who can afford to do so end up accumulating and even multiplying their own personal wealth. I say those who can afford to do so because it is not necessarily feasible, especially for those living paycheck to paycheck to actually save their money or invest it. This tends to stigmatize people who are unable to invest (the poor) because this option is made available to individuals and those who do not put it into application tend to be seen as responsible for their own poverty because they are viewed as unable to control their spending habits, unable to use moderation and incapable of providing the proper work ethic. Emphasizing this idea Marx explains how, “While the capitalist of the classical type brands individual consumption as a sin against his function, as ‘abstinence’ from accumulating, the modernized capitalist is capable of viewing accumulation as ‘renunciation’ of pleasure” (Marx, pp.740-741). This conveys the sense in which value judgments begin to be made by those who apply the abstinence principle as good. The available option of abstaining one’s wealth in order to save or multiply it is just another freedom given to individuals that contributes to the resulting unequal distribution of wealth because it causes wealth to accumulate and multiply in the possession of a small few.

Further, the exertion principle is also influential in contributing to the unequal distribution of wealth. This is because this principle allows for the justification for the resulting inequality. Since large inequalities mean social utility is not being maximized, when laissez-faire
policies and principles provide justification of such inequalities this in turn allows for the perpetuation of this unequal distribution, in that the exertion principle provides the idea that if one works hard they are allowed the right to the fruits of their labor. In a laissez-faire society this clearly just means that they are allowed the right to compensation for their labor, since laborers are not the owners of the products they help produce. Marx pointed to this fact and called this, workers’ alienation from the fruits of their labor, which is to say from the end products. This allows for the justification of unequal wealth distribution because it causes people to think that those who have the most wealth have worked hard for it and while those who are poor are then considered to have bad work ethic. This is reminiscent of the conception of the “American Dream” which reinforces this idea that if you work hard you will be able to make a comfortable life for yourself and can even become rich. This exertion principle is also undermined by the transfer principle, because in application some people just inherit their families’ accumulated (abstained) wealth, without contributing any real labor of their own. In these ways the exertion principle contributes to the justification of the large inequalities in wealth, which in turn contributes to the failure of laissez-faire policies to provide maximum social utility.

The application of these secondary principles of economic justice in Mill’s work presents contradicting ideas about the liberties of the individual to obtain personal wealth and overall social utility (in the Millian sense of happiness). In that, the freedom of the individual to accumulate wealth through the three economic principles justifies inequality in society and this contradicts the first principle of utility because maximum social utility cannot be achieved in a society with large inequalities. Mill describes how “private property, in every defense made of it, is supposed to mean, the guarantee to individuals of the fruits of their own labour and abstinence” (Mill, 1994, p.16). Here this quote is emphasizing Mill’s view of private property
that suggests laborers have a claim to what they produced. Mill later then reiterates and emphasizes this view that,

The institution of property, when limited to its essential elements, consists in the recognition, in each person, of a right to the exclusive disposal of what he or she have produced by their own exertions, or received either by gift or by fair agreement, without force or fraud, from those who produced it. The foundation of the whole is the right of producers to what they themselves have produced (Mill, 1994, p.25).

These passages convey the idea that according to Mill the justification of private wealth emerged from the act of labor that the laborer contributed. This seems to suggest that the exertion principle plays a role in justifying the ownership of wealth.

This would also seem to suggest that the amount of effort exerted on behalf of a laborer should constitute how much the laborer gains. This is an independent criticism of laissez-faire policies from the previous utilitarian ones, in that it is providing an objection on the grounds of the principle of equity. That is to say that those who produce the most effort and work the hardest should have the most gains and property. Medearis proposes that “Mill could agree with a version of this: an “equitable principle, of proportion between remuneration and exertion” (Medearis, p.142). This suggests that Mill approved of an account that grounds the justification of property in the form of the principle of equity that further advocates that the payment should be equal to the amount of effort and labor that a worker contributes. If such a principle was in place we should expect to see the class formations in society reflecting a structure that displays the hardest working individuals at the top of the hierarchy with the least hard working people falling in descending order in the lower income classes.

However, this is not how the distribution of wealth functions, especially in a laissez-faire
society, and it seems at times that even Mill recognized that this was true. Mill explains how the produce of labor is

Almost in an inverse ratio to the labour—the largest portions to those who have never worked at all, the next largest to those whose work is almost nominal, and so in a descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily labour cannot count with certainty on being able to earn even the necessaries of life. (Mill, 1994, pp.14-15).

This passage explains the way in which the hardest working people actually are among the lowest classes, barely making ends meet, while the richest people with the most have exerted the least amount of energy. This passage seems to suggest that the justification of wealth as proposed by Mill in the exertion principle may not be in play the way it should be. Later on Mill acknowledges this stating that, “the laws of property have never yet conformed to the principles on which the justification of private property rests” (Mill, 1994, p.15). This quote portrays the idea that the exertion principle on which Mill lays the foundation of the justification of private wealth has never been in place. This shows how laissez-faire policies have fallen short on the grounds of the principle of equity to provide maximum social utility, which is a separate principle from the previously stated utilitarian principles.

The application of J.S. Mill’s three principles of economic justice creates a tension and conflicts with his first principle of utility. Joseph Persky explains, “What we really learn from Rawls’s discussion is that the institution of private property is highly problematic in precisely the Millean sense. When left to laissez-faire mechanisms it leads to powerful concentrations of wealth that violate Rawls’s principles of justice and Mill’s most important social utilities” (Persky, p.144). Here Persky is describing the problem with Mill’s views of property, which is
that there is an inconsistency in which the individual’s liberties for private property cause negative consequences for the welfare of society as a whole. Basically the tension between the individual’s right to private property based on the three principles of economic justice (exertion, abstinence and transfer principles) and the right of society or institutions to interfere with inheritance rules to redistribute property. The issue here is that left alone without interference through a mechanism, such as inheritance rules, the three principles of economic justice allow for an over-accumulation of property that ends up affecting the welfare of society in a negative way because then the distribution of wealth builds to extremes in which a small minority in society contain a large majority of the wealth. This has implications for society and conflicts with Mill’s first principle of utility because as a result the greatest happiness principle isn’t being achieved. Therefore, due to the large inequalities perpetuated by laissez-faire policies, maximum social utility cannot be achieved, especially in comparison to more regulated, egalitarian markets that incorporate redistribution methods.

One might question why it is that the assumed greater efficiency and wealth attributed to laissez-faire policies does not provide maximum utility for society as a result. Schweickart attempts to provide a response to this question. He suggests that, “an answer to the paradox of why capitalism keeps growing, even though growth does not increase the general happiness: Those whose decisions determine the rate of growth have neither the motive nor the means to allow considerations of the general happiness to bear significantly on their decisions” (Schweickart, p.155). Here Schweickart is suggesting that those who have the most influence on investment and financial decisions that contribute to the growth within a laissez-faire system have no incentive or motive to be considering the overall utility of society. Instead what tends to happen is that the incentive to improve growth under laissez-faire economies mainly becomes
the focus and driving force of those who have the ability to make the big decisions that truly impact this said growth in the economy. Therefore, decisions by such big players tend to not be made with the consideration of how such decisions will impact the overall happiness of society.

Further emphasizing this claim Schweickart explains how, “Laissez-faire thus founders on the shoals of externalities and unbalanced growth, the latter exacerbated by the public-private distinction regarding the sources of investment funding. These factors puncture the claim that the profitability of an investment measures its social utility” (Schweickart, p.140). Here Schweickart is expressing the questionable nature of the utility defense, which suggests that social utility is gained through investments that are supposed to increase overall growth for the economy. Again the concern here is that these claims of increased growth resulting in greater utility for society seem not only unverifiable but also completely suspect.

Recall under the measure of marginal utility is also the concept of diminishing utility. Marginal utility is the increase in satisfaction from one individual unit or commodity consumed. Diminishing marginal utility will begin to occur each time the individual continues to consume some commodity. That is to say, that while one continues to consume a particular product the marginal utility that they receive each time they consume will decrease. This is a problem for laissez-faire economics because if the increased consumption of someone who is rich causes the amount of positive contribution to diminish in marginal utility then it is harder to claim that such a system actually provides maximized social utility because there is an inequality of utility gained between the rich and the poor. For, in comparison of a rich consumer’s gained utility, the marginal utility of the consumption by one who is impoverished would be so much greater. This concept of marginal utility conveys the idea that a more egalitarian distribution of resources would maximize greater social utility. That said, in contrast to the laissez-faire policies that fail
to provide this, an alternative economic system such as a welfare state, that has the means to provide policies that step in and redistribute resources equitably would more likely manage to achieve maximize social utility based on this modern conception of utility.

There is a sense here in which accumulated resources and wealth under one individual’s possession fails to maximize social utility because of diminishing marginal utility, which does not maximize social utility because when one person has large amounts of the wealth this prevents others from utilizing such wealth who would benefit from it more. For example by assuming that marginal satisfaction diminishes, what happens next is that such wealth creates less satisfaction throughout time, diminishing marginal utility. This is a prospect that is all too familiar in the free-market culture, the notion that more money does not necessarily make a person happier, thus have a more satisfying life. If it is the case that more wealth does not make one more satisfied then perhaps isn’t their accumulated wealth only preventing others who would be more satisfied from achieving their increased utility? This could propose a counter argument to the laissez-faire defense that greater wealth leads to greater overall social utility, because not only is the marginal satisfaction diminishing from the rich’s consumption, thus diminishing marginal utility; but also their right to accumulate and consume more than their fair share is preventing others who would be more satisfied by such wealth from being able to utilize it themselves.

Lastly, a final counter to the utility defense of laissez-faire on the grounds that greater growth and efficiency results in the increased overall social utility. The environmental deterioration that results due to increased growth by such an economic system necessarily decreases present and future social utility. I would argue that due to the negative impacts on the environment caused by the pursuit of greater economic efficiency and growth under laissez-faire
policies will cause more of the population to be disenfranchised and displaced, leading to the unlikelihood of greater social utility to ever be achieved in the future. Whether utility is measured by preferences, satisfaction or happiness it will not matter because on all grounds of these measures people will be unable to achieve maximized utility if they cannot obtain security and stability in the world. Ultimately, the importance of the utility of the buying power of consumers will be a superficial measure of benefit in the face of environmental devastation.

In this section I have argued that the greater social utility defense for laissez-faire policies is weak due to the unequal distribution of wealth and resources that result from this system. Some of the causes of this wealth disparity are the economic principles employed under laissez-faire policies, and the ones that I have analyzed were the abstinence, exertion and transfer principles. In addition to these utilitarian principles, I showed how laissez-faire policies also fell short in meeting the standards of the principle of equity. In consideration of the notion of utility measured by satisfaction, I have found that due to the unequal distribution of wealth overall social utility is not achieved under laissez-faire policies. Further, I argued that the inequality in utility found through the assumption of diminishing marginal utility prevents laissez-faire economies from achieving maximum social utility due to their inherent large inequalities. I also disputed the claim that laissez-faire provides overall utility by considering the repercussions of the environmental impact of industrial production and suggested that the overall effect actually prevents social utility.

Conclusion:

In this paper I argued that the laissez-faire defense that greater efficiency and wealth is achieved is weak and suspect. Furthermore, I argued that even if we assumed that laissez-faire does succeed in these areas that this does not also imply that overall social utility will necessarily
follow as an outcome. I suggested that the efficiency defense of \textit{laissez-faire} was made weak by the problems with the efficiency theorem and by the negative consequences that result from seeking to attain efficiency under \textit{laissez-faire} policies. I suggested that the growth defense of \textit{laissez-faire} was made weak by the impact of the consequences that result from such growth and by the consideration of how that growth unequally provides benefits to members of society. Furthermore, I suggested that social utility would not necessarily result from \textit{laissez-faire} policies due to the unequal distribution of wealth and resources. Therefore greater efficiency only provides greater wealth to some, but not all, in a \textit{laissez-faire} economic system. I argued that what contributes to this unequal distribution of wealth is the application of Mill’s outlined three utilitarian economic principles of justice. I further provided an independent criticism of \textit{laissez-faire} policies, which stated that \textit{laissez-faire} also fails to provide maximum social utility on the grounds that such policies do not meet the standards of the principle of equity. Therefore, I have showed how \textit{laissez-faire} policies have failed in both these ways, which is to say through the three utilitarian principles and the principle of equity. Furthermore, I argued that due to negative impacts on the environment caused by the pursuit of greater growth overall social utility will unlikely be realized in the future under \textit{laissez-faire} policies. Overall my argument was that \textit{laissez-faire} policies do not do as well as other more regulated markets in terms of maximizing social utility due to the resulting large inequalities that are characteristic of \textit{laissez-faire} economies.
Works Cited


