Opinion

Should We Aspire to a High Score for 'Economic Freedom'?

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South Africa is apparently not doing wonderfully in the 'economic freedom' stakes. The American Heritage Foundation's Index of Economic Freedom has given us an overall rating of about 5 out of 10; and we have dropped in the rating since last year. The media has reported this as a real shame, something we need to correct - an impression confirmed in interviews with economists employed by business.

Before you get too depressed about this, the concept of 'economic freedom' needs unpacking.

Essentially it means freedom for business – investors and managers – to make decisions and create practice without rules. Freedom means business being allowed to maximise profits for shareholders, without externally imposed restrictions. They include those relating to the interests of other stakeholders – employees, the natural environment and the wider body politic. So an economic freedom rating of 10 out of 10 is one where business can do what it likes in its own interests, regardless of its effect on the resource base, the health of people round it, the elected authority or anything else.

The two areas that reduce our rating are affirmative action (called 'race laws'), and legislation for minimum standards for wages and other conditions of work. These are considered to limit the right of employers to hire and fire without reference to legal, political or other restriction. And so they do.

They do so because the government reflects most voters' opinion that these two areas require legislative rules for the sake of economic justice, historic restitution and societal harmony.

In other words, the government sets 'economic freedom' within the parameters of the political economy and human rights for everyone. It recognises that inevitably different interests of different groups need to be balanced by an authority – the elected government – that can hold the ring. So it makes rules. Another, differently rooted, political party might set different rules. But the idea that rules are unacceptable in principle seems remarkably primitive and unintelligent.

It is surprising that a sports-mad country can so easily assume that lack of rules is the optimal condition. What would happen if there were no restrictions on the number of players in rugby, on the size and weight of boxers, on the weapons that may be deployed in soccer, on what constitutes a court or a 'game' in tennis … ?

We know why we need rules in sport. It is to prevent sheer might being automatically right. If there are no rules, the biggest, ugliest, most grossly aggressive brute force would take the prize every time. Fairness is the essence of the attraction of sport. Why not in the arena of the economy? If there are no rules, the biggest, the most ruthless, the most short-sighted will dominate the arena. Size would be of the essence: Big Business would be the only powerful show in town.

Which raises the second problematic assumption. In this context ‘economic freedom’ is assumed to mean ‘business freedom’. What is good (or ‘free’) for business is by definition good (‘free) for the whole economy. So business is assumed to constitute the whole economy.

That is why most media treat the economy within the context of business. Typically ‘economic news’ is considered news about the progress – success or failure - of businesses, defined by profit; and reported in the Business section of the print or electronic media.

Typically, also, comment on news like our ‘economic freedom’ rating is asked from economists employed by business. They are assumed to provide objective comment. When trade unions’ views are reported they are represented as partisan – which they are, but no more so than the view of economist employed by business. There is nothing wrong with representing those interests; but they are only one part of a complex economy of different and sometimes overlapping interests.

Business, like all sectional interest, will try to enlarge its influence. But I have never understood why progressive business does not lobby for regulation to prevent unscrupulous rivals getting a competitive advantage through destructive behaviour.

Much of this skewed definition of the economy as limited to business interests derives from another set of assumptions – explicitly rigidified into doctrine some three decades ago. It is that only the private sector can be efficient in the distribution of resources - via the pursuit of profit through the markets. Therefore employment can be created efficiently only through business, so that what suits business suits everyone.

The doctrine has failed. Inefficiencies in the market constantly require remedial action through governments. Business cannot create enough decent jobs to enable demand for its products, nor provide services, including roads and courts, which cannot pay for themselves. So the business and public sectors are interdependent; and business is one element only of a successful economy – let alone a sustainable political and natural environment.

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