Disagreement between Direct and Overall Liberty: Even Less Troubling than Suggested?

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When evaluating policy reforms, a simple "liberty principle" can be invoked where only policies that are liberty-augmenting are supported. But what happens if some facets of policies are liberty-augmenting while other facets are liberty-reducing? Even when following a Rothbardian definition of liberty, the concept can become vague with unresolved issues leading to potential limitations surrounding the principle of liberty. In a recent article in *Reason Papers*, Daniel Klein and Michael Clark present areas of potential disagreement when evaluating prospective policy reforms between direct, immediate effects, and overall liberty, including direct and indirect, or secondary effects.[1] It is possible that a policy change could be directly liberty-reducing, but, overall, liberty-augmenting (or vice versa), suggesting a possible a tension between the two. If such tensions exist and a reform is supposed to be evaluated based on the liberty principle, how does one choose between alternative policies?

Klein and Clark treat the liberty principle (in either variant, direct or overall) as little more than an ordering principle of given policies. Following their framework, let R represent a policy reform, the symbol >DL imply a direct liberty ranking, and the symbol >OL represent an overall liberty ranking. When R1 >DL R2, this implies that R1 ranks higher in direct liberty than R2, and if R1 >OL R2, then R1 ranks higher in overall liberty than R2. In this case, it is clear that the liberty principle favors R1 over R2 in both direct and overall liberty. However, some cases are not so clear. The authors are concerned when R1 >DL R2 but R2 >OL R1. When following the liberty principle, which policy reform should be chosen?

According to this way of thinking, for example, raising the minimum wage is directly liberty-reducing. However, if this one intervention prevents

[1] Daniel B. Klein and Michael J. Clark, "Direct and Overall Liberty: Areas and Extent of Disagreement," *Reason Papers* 32 (Fall 2010), pp. 41-66. They recognize the difficulty of fully assessing any policy reform and acknowledge that many of the examples are speculative, but do not see this as a major criticism of their article. I follow this assumption as well.

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more severe labor market regulations, it could be overall liberty-augmenting. The authors use this framework to analyze eleven specific areas (military actions, pollution, etc.) in which disagreement might likely occur. One of the most important areas for disagreement is coercive hazard, which occurs when government subsidizes specific behaviors or programs, making taxpayers foot the bill for risk taking. Because of government involvement in these markets, there becomes a liberty-augmenting argument for restrictions in these industries leading to possible disagreement between direct and overall liberty.

Even with such possibilities, most of the time direct and overall liberty are in agreement. When there is disagreement it is not that significant, leading Klein and Clark to conclude that such tension is "troublesome, but not *that* troublesome" (p. 65). Their framework is concerned with scope and timeframe; however, they stop short the analysis in both scope and time. What they fail to explore is how the liberty principle is also an engine for formulating relevant, focal policy reforms, or Rs. In the context of the larger discussion, the Rs are not just given by some other source, but are formulated within the discussion itself. Klein and Clark casually mention that indirect effects can span and effect other polices and future reforms, but do not include this in their formal analysis. Policies typically come bundled together, if not in direct form, in at least indirect effects. For example, the current health care reform legislation does not involve one coercive act but countless coercive acts that span across many different areas. Therefore, the framework can be expanded in scope to include R3, a vector of potential policy reforms, and the time frame can be expanded to include the long-run secondary effects from policies within R3.

When Klein and Clark find a dyad (R1, R2) for which direct and overall liberty disagree, very often the liberty principle points to further relevant policy reforms, or an R3. Once we include R3 in the dyad with (R1, R2), agreement between direct and overall liberty may be obtained. That is, for (R1, R3) there is no disagreement, and for (R2, R3) there is no disagreement. Thus, the disagreement between direct and overall liberty for dyad (R1, R2) does not force us to maintain our focus on R1 versus R2. Instead, the very disagreement may lead us to focus on a conspicuous R3 for which there is no such disagreement. Klein and Clark neglect this dimension of the liberty principle as a guide for formulating the political discussion toward better policy alternatives.

In order to provide a concrete illustration and to show how this might work, I focus on coercive hazard in financial institutions. Examples of coercive hazard within financial institutions are abundant: the Federal Deposit Insurance Corporation (FDIC), the government bailout during the savings and loan crisis in the 1980s-1990s, and the more recent bank bailouts. Suppose a new policy, R1, is proposed to allow further restrictions in financial dealings, and R2 is to keep the current level of financial restrictions in place. The argument is that since the taxpayers pay for risky financial decisions undertaken by private companies, these decisions should be restricted and regulated. Direct liberty may be reduced because of new government regulations, but overall liberty could be increased as the restrictions may reduce an individual's tax burden in the future. However, the conversation does not have to end with (R1, R2). Through political discourse, an alternative R3 could arise (either from voter/taxpayer discontent or budgetary pressure) that includes reducing or eliminating a large portion of government regulations on financial dealings *and* not to engage in future bailouts.[2] In this scenario, R3 trumps both R1 and R2 as direct and overall liberty are in agreement.

This logic can be applied not only when any government subsidization is involved, but to any policy reform when it is not completely obvious that direct and overall liberty are in agreement with each other. If the proposed reform eventually leads to other policy changes, such as eliminating bad laws, any disagreement between direct and overall liberty is virtually eliminated. Klein and Clark present an interesting framework for evaluating dissent between direct and overall liberty. By extending both the time and scope of the analysis, most divergence between direct and overall liberty disappears. It is safe to say that any tension that remains, is really *not* that troublesome.[3]

[2] This alternative is similar to one proposed by David Friedman, where he argues that overall liberty is enhanced when more people avail themselves of tax-funded benefits, because it reduces general support for collectivist funding. See David Friedman, "Welfare and Immigration: The Flip Side of the Argument," Ideas Blog, April 1, 2006, accessed online at: http://daviddfriedman.blogspot.com/2006/04/welfare-and-immigration-flip-side-of.html.

[3] I would like to thank Daniel B. Klein and the participants at New York University's Colloquium on Market Institutions and Economic Processes for helpful comments and suggestions.