

8.3 On freedom

The final section of this closing chapter starts by identifying the three types of freedom that are needed to realize the set of ethical principles for development (see Table A4.5b). Two fundamental freedoms, ‘the freedom *to* create value’ and ‘freedom *from* value extraction’ are proposed and associated with investment and development (8.3.1, see Figure 8.4). The second sub-section adds a third enabling freedom, ‘the freedom *to exit*’ (8.3.2, see Figure 8.5). The third sub-section ends the book with some closing reflections that link the essential conceptual elements of this theory and grounds them in first principles, including Schopenhauer’s “will to live” and Nietzsche’s “will to power” (8.3.3). It is shown that fulfilling the promise of freedom for sustainable economic and human development ultimately requires ‘elite judgment’.

8.3.1 Two fundamental freedoms: Where elite and non-elite interests converge

The maxim, *To the creators the value created*, is to John Bates Clark a natural law that “assigns to every one what he has specifically produced” on the assumption of unobstructed and “free bargaining” (1899/1908, p. 3). Value extraction is therefore problem-

atic to freedom. The inquiry now fleetingly touches upon two conceptualizations of freedom that facilitate positive developmental outcomes.

In his book *Escape from Freedom* (1994), Erich Fromm discusses “freedom from” (negative freedom) or the absence of any restraints, which has also been conceived as freedom from want. In the ETED, such restraints are imposed by powerful others to overcome resistance to extractive value transfers and realize value appropriated but *not* created. The philosopher also conceived “freedom to” (positive freedom) as the ability to engage in the creative acts of ones choosing. Transposed to development, this would refer to the realization of value creation opportunities. Thinkers have conceptualized these two freedoms in various ways: “Negative liberty is the absence of obstacles, barriers or constraints. [. . .] Positive liberty is the possibility of acting—or the fact of acting—in such a way as to take control of one’s life and realize one’s fundamental purposes” (Carter, 2019).

Sen identified the “opportunity aspect” of liberty as being vital to social choice theory and further underscored “the importance of *effectiveness* in the realization of liberty”, and the complimentary “process aspect” (1999b, pp. 363, 364). His “freedom to do some basic things that are necessary for survival and to avoid or escape poverty” relates to the “capabilities approach” with “its focus on what people are effectively able to do and to be”, an idea rooted in Aristotle, Smith, and Marx, and on which basis Nussbaum (2003) “argues for a well-defined but general list of ‘central human capabilities’ that should be incorporated in all constitutions” (Robeyns, 2005, pp. 94, 101, 103). These “fundamental entitlements” include: “Being able to live with concern for and in relation to animals, plants, and the world of nature”; “Being able to use the senses, to imagine, think, and reason – and to do these things in a ‘truly human’ way, a way informed and cultivated by an adequate education, including, but by no means limited to, literacy and basic mathematical and scientific training”; and “Being able to laugh, to play, to enjoy recreational activities” (Nussbaum, 2003, pp. 40, 41–42). *The Universal Declaration of Human Rights* (1948) articles, much like the constitutions of the majority of liberal democratic political systems, incorporate both negative freedoms (freedom from) such as the “right to life” protection from being unlawfully killed (art. 3), “freedom from discrimination” (art. 7), or “the right to own property [which] no one shall be arbitrarily deprived” (art. 17), and positive freedoms (freedom to) such as the “right to education” (art. 26) “for the realization of one’s human potential” (Okulicz-Kozaryn, 2014, p. 1011), “the right to work” (art. 23), or “the right to social security” (art. 22).

The interests of non-elites, as has been repeatedly noted throughout this inquiry, are centered on the right to create value to fulfill innate human potential (see the premises on human behavior in Figure A5.4c) and be emancipated from extractive value transfers. The freedom *to* create value and freedom *from* value extraction respectively correspond here to ‘freedom for’ the unimpeded creation of value, and ‘freedom from’ this value being taken away. These fundamental freedoms are also in the self-interest of elites—if understood as striving for sustainability and development—and have to be explicitly incorporated in institutional design. To understand why, Figure 8.4 presents ‘The Two Fun-

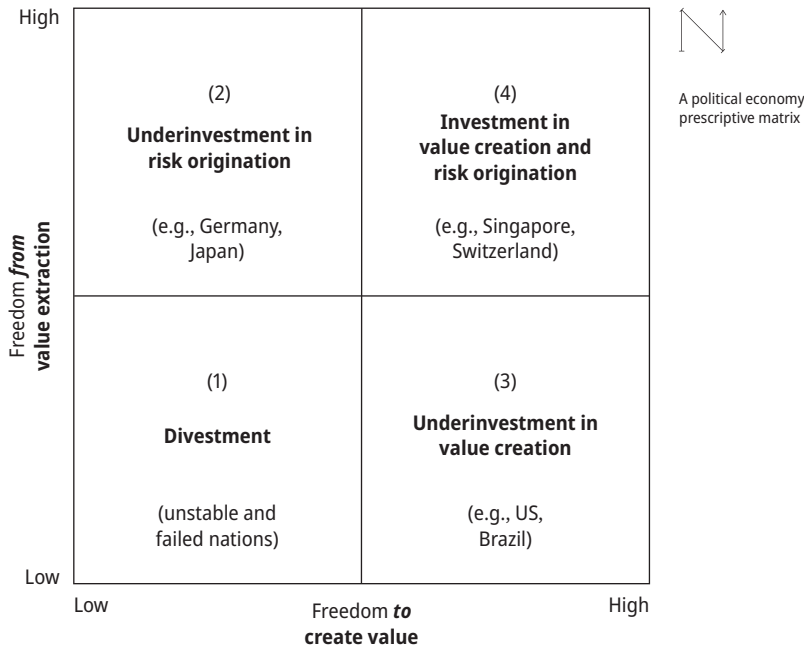


Figure 8.4: The Two Fundamental Freedoms for Development Matrix.

damental Freedoms for Development Matrix’, which outlines their relationship to types of investment and the consequences for development, while also suggesting some countries that might fit the profiles of the four ensuing quadrants.

The optimal investment levels in the economy depicted in ‘investment in value creation and risk origination’ (quadrant 4) maximize the production function and realize developmental potential. Such a position, typified by Switzerland and Singapore, is achieved by the existence of the freedom *to* create value and the freedom *from* value extraction. In ‘underinvestment in value creation’ (quadrant 3), non-elites and some elites are travailed by the extractives transfers of the powerful and have few incentives to be productive or invest in their own human capital. However, the existence of the freedom *to* create value means that the tougher elites and non-elite agents will still make bold bets, with some of the latter reaching elite status and at times creating massive new value. The US and Brazil have a significant number of value creators but also see unproductive non-elite responses to extraction such as ‘exit’ or ‘informality’ (see Table 5.1) that come at a cost to elite business models and economic and human development in the form of untapped potential. In ‘underinvestment in risk origination’ (quadrant 2), the challenges are the disincentives to create new value in the first place, not because of extraction but because non-elites, especially emerging elites, are not enabled. Accumulated institutional change in support of the status quo via closed social access, excessive regulation or taxation, and conser-

vative narratives and culture, all impede the flourishing of the Will to Power's instinct to create value. This is evident in the partial elite circulation (see Figure 1.1) seen in the cases of Japan or Germany over the last half century, and the dormant agency of non-elites whose value creation could otherwise propel them to rising elite status (e.g., on the back of Schumpeterian creative destruction and entrepreneurial activity). 'Divestment' (quadrant 4) reflects the lack of the two fundamental freedoms for development in countries where positive returns on investments accrue only to established elites in possession of 'political economy know-how', irrespective of their 'knowledge', leading to negative capital accumulation growth rates and chronic Hayekian malinvestment.

8.3.2 The enabling freedom to *exit* that rebalances bargaining power differentials

In *Development as Freedom* (1999a), Sen determined freedom to be essential to development and the most efficient path to inclusive welfare. This section further connects freedom to growth by introducing a third freedom, the freedom to *exit*, as a practical necessity for prosperity. Development theories have sought to understand economic and human development and their relationship to each other. What the UNDP's Human Development Reports measure is qualitatively distinct from economic growth (Gasper, 2004, pp. 164–165), while it is self-evident that the citizens of healthy, educated, and knowledge-producing societies have more freedom to create value and are therefore more likely to engage in value and risk creation and contribute to economic development. Healthy and educated citizens are similarly less likely to have suffered from extraction by the powerful because of freedom *from* extraction, the second key incentive to create the value and risk that underwrite economic development. John Locke put forward a “doctrine of property” centered on economics and value appropriation (Parsons, 1969), a set of ideas where freedom, in both its positive and negative forms, takes center stage and contains elements of the maxim, *To the creators the value created*. In their bestselling book, *The Narrow Corridor* (2019a, p. xi), on “the fate of liberty” and development, Acemoglu and Robinson also understand liberty in Locke's terms and cite the English philosopher's conception of it as follows:

To understand political power aright, and derive it from its original, we must consider what estate all men are naturally in, and that is, a state of perfect freedom to order their actions and dispose of their possessions and persons, as they think fit [. . .] without asking leave, or depending upon the will of any other man [and that the state of liberty] is not a state of license [. . .] no one ought to harm another in his life, health, liberty or possessions (Locke, 1823/1993, pp. 106, 107)

This work's conception of liberty also rests on a synthesis of the two concrete fundamental freedoms: the freedom to create value and freedom *from* value extraction (see Figure 8.4). Liberty in the abstract risks being indecipherable to many, including citi-

zens of non-Western cultures whose value systems prioritize the collective (Triandis, 1989), but what is universally articulated and intelligible are the specific freedoms to create value and *from* value extraction. These can be connected to fairness rooted in the atavistic sense of justice that involves the amygdala (Gospic et al., 2011), and to reciprocity and empathy that have sociobiological and evolutionary bases (Dawkins, 1976; Alexander, 1987; de Waal, 2006). The two fundamental freedoms can therefore manifest themselves to different degrees in a multiplicity of narratives and beliefs ranging from sociopolitical (e.g., forms of liberal democracy, technocracy, Socialism, Communism, Confucianism) to religious (e.g., Hinduism, Judaism, Buddhism, Christianity, Islam). Yet in practice, these freedoms are enabled by a third variant: the ‘freedom to *exit*’ (as depicted in Figure 8.5).

This mechanism guarantees the freedom *to* create value and the freedom *from* value extraction (the two axes of the matrix in Figure 8.4), gives agency to non-elites, and references the VCA framework and equalized bargaining power between principals and stakeholders. Exit here is conceived of as a freedom to engage in alternative principal-stakeholder relationships in order to maximize the potential for value creation, often meaning the termination of extractive transfers where too much created value is perceivably appropriated by the counterparty. This might be taken to resemble the classical liberal “ideal of freedom as antipower” that is probed by Pettit (1996, p. 602). The disavowal of power is as utopian and impractical here as the perfect information assumption is in economics. Nevertheless, the freedom to *exit* is a rebalancing of power and can be striven for and systematically achieved through structural reforms or reinforced institutional arrangements in the elite separation of powers. Without the freedom to *exit*, entry is disincentivized; without limited liability or the *de jure* depersonalization of business, productive entrepreneurship is *de facto* repressed (as was the case in Rome, see Abatino, Dari-Mattiacci, & Perotti, 2011). Moreover, when the freedom to *exit* falters, an assorted range of unproductive non-elite pseudo-exit responses proliferate: Japan’s *hikikomori* recluses, China’s *tang ping* lying flat movement, Russia’s alcoholics, or America’s opioid victims (see Section 5.2.3 and Figure A5.8).

The enabling freedom to *exit* is institutionalized and becomes productive through multiple avenues: bankruptcy laws; Jubilees (see Section 8.2.4 and “In the year of this jubile ye shall return every man unto his possession” King James Bible, 1769/2017, Leviticus 25:13); consumer choice laws (e.g., *Unlocking Consumer Choice and Wireless Competition Act*, U.S. Senate, 2014); escaping the debasement of a national currency through access to foreign financial instruments; debt brakes (Danninger, 2002; Sinn, 2020, p. 120); career mobility without non-compete restrictions (as in California where such clauses are unenforceable, see Dierzé & Olivares, 2024); or the right to abstain from wars as is asserted by conscientious objectors. However, in the context of responses to value extraction (Table 5.1) it is repeatedly shown that the freedom to *exit* hardly exists at all for many stakeholders such as those subject to opaque algorithms, oligopolistic energy costs, inflated housing prices, payday loans, or human trafficking. Hence, when absent from the economy in its legal form, an ersatz freedom to *exit* ap-

pears as ‘informality’ (see Table 5.1) in underground and grey markets, escaping inflation and real negative interest rates through cryptocurrencies, or using offshore tax havens. The freedom to *exit* is a generic need, but in practice, as with any freedom, it requires specific laws and a complex institutional infrastructure.

With the freedom to *exit*, extractive models that flourish in the non-market and narrative market arenas (operating through ‘political economy know-how’) are compromised and bargaining power differentials undercut, preempting value created but *not* appropriated. Power gains then become attributable to ‘knowledge’ in the market arena, which is preferable (see Figure 2.3 on business model bargaining power sources for value appropriation) for development. The freedom to *exit* qualifies the source of the bargaining power and effectively rearranges the economy’s incentive system. In a world with the two fundamental freedoms, the marginal returns on all forms of capital would also, sooner rather than later, approximate equalization (i.e., Hayek’s ideal state). The freedom to *exit* is a critical enabler of value by circumventing the power of elite business model beneficiaries in principal-stakeholder relationships. Exit thus liberates non-elite value creators. Of course, once the freedom to create value is institutionally secured, it needs to be taken up.²³⁹ Beyond the psychology of indolence, it is essential here to understand the non-elite appetite—or lack thereof—to create value and risk and realize the Will to Power. Deep freedoms activate animal spirits that determine the pace at which unimpeded creativity and innate energy reservoirs engage with uncertainty and boost the prospects of business models that might scale and overcome the ‘knowledge’ of incumbent elites.

In short, despite having evident conceptual proximities, the freedom to *exit* is different in nature from the two fundamental types of freedom, as it does not relate directly to value creation or its appropriation. It is rather a mechanism that maximizes the likelihood that the first two freedoms will be realized. The nature of the relationship and balance between the three freedoms is depicted in ‘The Three Freedoms for Development Model’ of Figure 8.5 (and summarized in Table A4.5a).

The Three Freedoms for Development Model is this elite theory’s conceptualization of liberty, an institutional *sine qua non* for prosperous development and the release of human creativity. As such, these freedoms must be codified into legal statutes (see the top level of the pragmatic philosophy in Figure 8.7). For instance, when Giblin and Doctorow (2022) assert that Big Tech and Big Content have “captured creative labor markets”

²³⁹ Paradoxically, the freedom to *exit* will also lead to nihilistic attitudes from those who choose not to create value. While Lafargue’s *The Right to Be Lazy* (1883/2000) clashes with the macro-level economic development aim of this inquiry, the third freedom is a guardrail to protect basic rights, and therefore no one should be compelled to create value against their wishes. There is a clear ethical distinction, however, between engaging in an unproductive ‘exit’ as a response to forced extraction and exiting of one’s own volition to exercise the right *not* to realize ‘the innate value creation character of humans’ in the manner of Semyon Zakharovitch Marmeladov. Needless to say, individuals who choose *not* to create value have no entitlements to finance their lifestyles through coerced transfers originating in the first-order productive activities of third parties via the state, or, in the case of the *Crime and Punishment* character, the family.

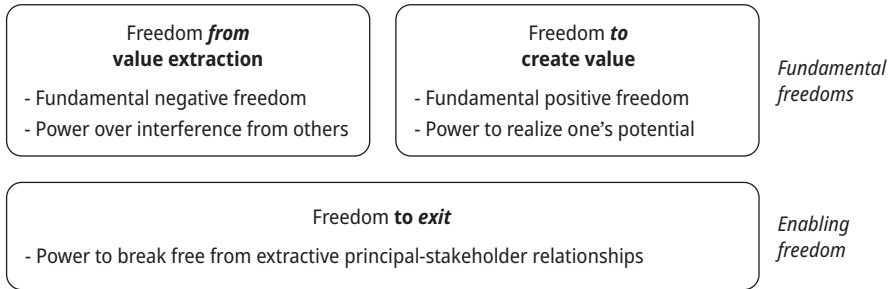


Figure 8.5: The Three Freedoms for Development Model.

and that “we’ll win them back”, how should the freedoms be translated and enshrined into law? The three freedoms model lends itself to be operationalized into legal writ and is meant to benchmark proposals for institutional change, from industry regulations to the design of constitutions. These freedoms also ease the path for elite business model transformation towards higher sustainable value creation (e.g., as measured by the VCp) that is aggregated in elite systems as higher elite quality (e.g., as measured by the EQx).

In short, and consistent with the maxim of the set of ethical principles, *To the creators the value created*, the realization of this work’s normative implications depends to a considerable extent on the institutionalization of the Three Freedoms for Development Model. In a two-way interaction, these freedoms strengthen and are systematically strengthened by elite system transformational leadership (see Table A4.5b and Figures A5.12a and A5.12b). It is plain that prosperity flourishes in a society where individuals, both non-elite and elite, retain a greater proportion of the value that they create through their labor, imagination, and good fortune.