

Freedom Economics and Human Dignity

Economics for the Good of People



J.D. Foster, Ph.D., and Jennifer A. Marshall

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EVERY HUMAN BEING HAS INHERENT DIGNITY, and that dignity demands freedom. Freedom allows man to pursue his highest purposes. In fact, the pursuit of truth and virtue *requires* freedom. Whether in religion, politics, or economics, freedom is the condition that recognizes the dignity of all human beings and engages the personal moral responsibility of each and every person.

In the spiritual realm, the Christian faith teaches that salvation is to be set free: free from the shackles of sin, free to choose what is good and right, and free to honor God by choosing what pleases Him. In the economic sphere, freedom allows us to pursue the fullness of human life—those ends of human existence bound to the material, as well as those that transcend the material. In both temporal terms and Christian spiritual understanding, freedom is central to what it means to be fully human—that is, to experience the fullness of both material and moral/spiritual reality.

However, the way we talk about freedom in the economic sphere tends to overlook the aspects of human experience that transcend the material. We need a way to discuss economics that captures these more profound dimensions of human flourishing, prosperity, and freedom. We need a perspective that situates economic freedom in the context of the fullness of human freedoms.

Freedom economics provides such a framework. In contrast to the way we typically talk about economics, freedom economics places

the individual and the exercise of individual freedom and responsibility at the center of a wide-ranging discussion. The emphasis is not on the market or industries or nations, but on the individual exercising his or her freedoms, both economic and non-economic.

Freedom economics recognizes the mutually reinforcing nature of all individual freedoms: Economic, political, and religious freedom work to strengthen one another. Freedom economics places the economic process in the broader context of the establishment, protection, and exercise of all freedoms to advance human dignity. It seeks to promote both economic and non-economic freedoms.

Freedom economics offers a guiding principle for the organization of economic processes of work, saving, investment, and transactions, as well as for supporting processes such as education and health care. It is predicated on the explicit intention to allow individuals the maximum expression of their economic freedoms.

Freedom economics offers real hope for unshackling those trapped by the bonds of poverty, inadequate health care, or social unrest. It accounts for the material factors as well as the social, cultural, and behavioral issues that

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affect economic well-being and general social welfare. As a beneficial (and not coincidental) byproduct of its central focus of

advancing human freedom, freedom economics tends to produce the most job opportunities and wealth, and the highest wages, salaries, and profits—all the material measurements typically associated with economics.

Freedom economics is about how we order our own economic lives together. It is a freedom-based perspective that offers a better understanding of the interrelationships between the purpose of human life and satisfying material needs and desires.

Antecedents of Freedom Economics

The central focus of freedom economics is squarely on individuals: their economic freedom, the exercise of economic freedom in relation to other freedoms, and the advance of human dignity and prosperity through the exercise of these freedoms. Many terms in popular circulation express aspects of freedom economics, such as "the free market," "capitalism," and "free enterprise." With a more comprehensive perspective, freedom economics incorporates, but goes well beyond, these more familiar terms.

The Free Market: The free market mechanism is, indeed, a cornerstone of freedom economics. A free market exists anywhere two parties meet to exchange freely what one party has and the other wants at a price to which both agree.

Without a free market we are deprived of the important freedom to transact according to our needs and priorities. Free markets permit buyers and sellers to identify the appropriate item to be exchanged and the price for the exchange. Put another way, free markets allow individuals to assign value to goods and services. Free exchange also involves a reciprocity that reflects the human dignity of each party, as opposed to situations in which one party exploits another, such as forced labor.

Markets that allow individuals to transact freely are certainly important, but the name "free market economics" emphasizes the supremacy of the market over the buyer and seller, the transaction over the human agents. More importantly, there are economic freedoms not immediately reflected in a transaction; the term "free market economics" does not capture the fullness of these freedoms. The more appropriate emphasis is on the wide range of freedoms of the individual, of which the freedom to exchange is but one.

Capitalism and Free Enterprise: Economic freedom also sometimes goes under the labels of “capitalism” and “free enterprise.” These labels are also inadequate, the former more so than the latter. “Capital” refers to the value of accumulated savings employed in the production of goods and services. Some examples of capital would be start-up funding to open a bakery or land purchased by a real estate developer. The concept of capital was emphasized especially during the Industrial Revolution when Marxists focused their economic system on the ownership of the means of production, i.e., the ownership of capital. Marxism sought to eliminate private ownership of capital. Among the many freedoms communism denies is the freedom for individuals (as opposed to the state) to own and control the use of property. Yet communism and freedom economics each involve much more than who controls the capital, and to narrow the focus to this single factor misses other critical distinguishing features.

Free Enterprise: Free enterprise is more adequate because it emphasizes the entrepreneurial spirit of individuals in pursuit of their own interests. The shortcoming of this label is its implied focus on business and production, seemingly discounting other economic freedoms and, more generally, ignoring the relationship of economic freedoms to all other freedoms.

Freedom Economics: In contrast to these other terms, freedom economics situates the human person at the center of economic, reminding us that the market is for man, not man for the market. Moreover, freedom economics tells us about the human ends that it ought to serve. Economics should serve human freedom in all its dimensions—political, social, physical, spiritual.

Human Freedom at the Center of Freedom Economics

Human freedom is the ends, the means, and the driving force of this economic framework. An economic system should serve the individual and his ultimate ends. These ultimate ends are not a vast pile of “stuff” that is manufactured and bought, or having a job, or the ability to purchase particular goods and services.

The exercise of our personal freedoms is what makes freedom economics work—not the decisions of a powerful few holding sway over the crowd nor the impersonal forces of “the market.” Rather, freedom economics is the expression of millions of people,

each freely making hundreds of daily decisions that have economic implications. These decisions may involve taking out a student loan, working overtime, switching from Coke to Pepsi, shopping around for a lower gas price, renting a beach house for Labor Day weekend, downloading iPhone applications, depositing a paycheck into a savings account, adver-

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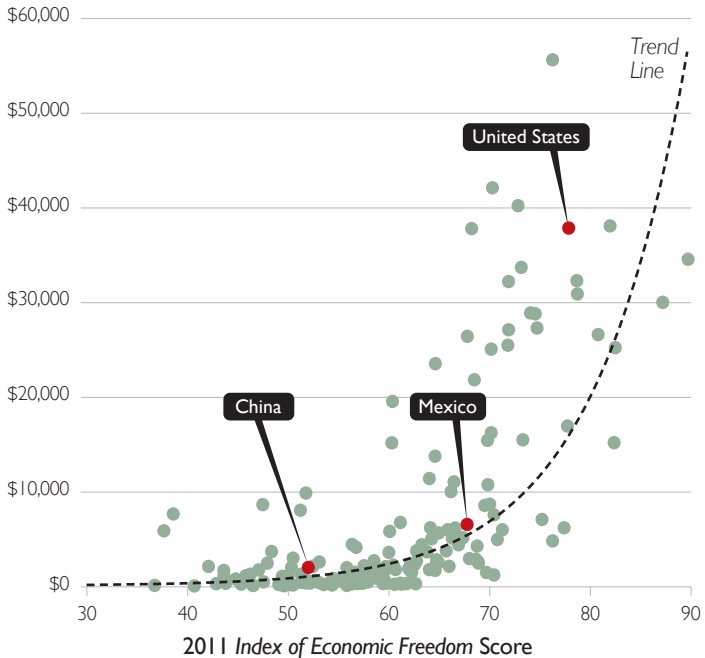
tising used books on craigs-list, subletting an apartment, calling a towing service, choosing an expensive restaurant on Valentine’s Day, or sending Christmas cards. All of our everyday exercises of freedom of choice drive freedom economics.

The goal of freedom economics is to further our freedom—not productivity, efficiency, or a higher living standard. All of those are byproducts, and they are desirable because they further human freedom, but they are not the goals themselves.

An Encouraging Trend: Freer Nations are More Prosperous

Nations with higher scores in the *2011 Index of Economic Freedom* tend to have stronger economies.

GDP per Capita*



* Figures are in 2000 dollars.

Sources: *2011 Index of Economic Freedom*, by the Heritage Foundation, at <http://www.heritage.org/index>; GDP figures from the International Monetary Fund, World Economic Outlook database.

The Fullness of Freedom

Freedom often conjures up images of tyrants being toppled and citizens voting. These are examples of freedom in the political arena, and political freedom is important. But it is one among many important, interrelated, mutually supporting freedoms, which range from the ability to express an opinion or worship as we choose to being able to own and exchange property. Good health and freedom from poverty are other dimensions of freedom. Taken together, all of these comprise what it means to be free as a human being. Economic, political, and religious freedoms, in particular, are foundational elements and collectively encompass the system of freedom economics.

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Economic freedom. Economic life is just one area of human existence. It is hardly the most important, but it is fundamental to the pursuit of our ends as created human beings. Economic freedom includes our freedoms to create, to explore our capabilities and talents through our choice of vocation, and to provide for ourselves and our family. Economic freedoms involve the opportunity to acquire and own property, to exchange our goods and services with others in free markets at prices that are mutually agreeable, and to transact when and where we choose. They also involve freedom from severe lack of food, shelter, health care, or other necessities—in other words, freedom from various forms of poverty.

Because it involves our ability to employ our capabilities in the choice of what we do to make a living, economic freedom

also involves our decisions that nurture those capacities, especially education and training, but also our lifestyle choices, health care, and nutrition. Without education and training, our ability to offer valued services is necessarily diminished. If we choose a lifestyle that leaves our minds sharp and our bodies healthy, then the services we offer to those willing to pay for them will have greater value. But if, due to poverty, our nutrition is limited, our education poor, and our access to health care inadequate, then these needs will exacerbate our poverty.

Our ability to exercise economic freedom depends significantly on our ability to exchange in markets that are free of political constraints or criminal influences. At its core, all economics involves the interrelationships between individuals and between groups and, thus, the nature of those interactions is fundamental to economic freedom. “The freedom to exchange words, or goods, or gifts does not need defensive justification in terms of their favorable but distant effects; they are part of the way human beings in society live and interact with each other (unless stopped by government regulation or fiat),” explains Nobel prize-winning economist Amartya Sen, who specializes in development.¹

Freedom economics is a system in which the broad range of economic freedoms is widely enjoyed in great depth. It is a vital aspect of the overall goal of expanding freedom. While economic freedom helps people pursue fulfillment, other freedoms reinforce economic freedom as a force for human flourishing. Perhaps the most important of many such freedoms are political freedoms and religious freedoms.

1 Amartya Sen, *Development as Freedom* (New York: Anchor Books, 1999), p. 6. Readers familiar with Sen’s work will quickly recognize that a great many themes laid out in *Development* are carried here, and the authors wish to acknowledge the influence of Sen’s work.

Political freedom. Political freedoms include the opportunity to play a role in deciding who should govern and on what terms, the ability to question the exercise of authority, the freedom to express one's political views without fear of official reprisal, and the freedom of the press to support each of these freedoms.

While political freedoms are fundamental in their own right, they also play a vital role in sustaining and advancing economic freedoms. For example, a basic economic freedom is the right to own property. This right necessarily entails a strict protection against the actions of others (whether it be a local mobster or a government entity) to take the property without consent and without due compensation. Political freedoms involve, among other things, the ability to maintain, through free elections, a government of laws that protects economic freedoms such as property rights.

Perhaps the most straightforward example of the connection between political freedom and economic freedom is that, although there may be instances (or even prevalence) of hunger in countries under democratic rule, there are no widespread famines such as those that plague many countries ruled by autocratic despots. In a democracy with free elections and free media, those in power have a strong incentive to undertake actions that are necessary to prevent famine, marshalling the nation's resources, however scarce, to ensure that all citizens have adequate food. Consider the contrast between the great famine in China during the Great Leap Forward (1958–1961) and the absence of famine in perpetually conflicted yet democratic India.

Whereas political freedoms reinforce economic freedoms, the reverse is also true. As Milton and Rose Friedman explained,

By enabling people to cooperate with one another without coercion or central direction, [economic

freedom] reduces the area over which political power is exercised. In addition, by dispersing power, the free market provides an offset to whatever concentration of political power may arise.²

Freedom economics aims to empower everyone in a society, not just an elite few or a specific sector of the economy.

Religious freedom. Religious freedom is also an important part of the fullness of human freedom, reflecting an essential aspect of human nature encompassed in freedom economics. The most basic human liberty is freedom of conscience.

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There is no more fundamental recognition of the transcendent dimension of human existence. Conscience, ultimately, is answerable to a higher authority than the law of the land.

Nations that respect this fundamental aspect of human nature also tend to respect other freedoms as well. As Brian Grim of the Pew Forum on Religion has explained, religious freedom typically is at the center of a “bundled commodity” of freedoms.³ Religious, economic, and political freedoms tend to expand together and reinforce one another as well.

The correspondence between religious freedom, economic freedom, and prosperity is strong. Countries designated by the U.S. Department of State as being “countries of particular concern”

2 Milton and Rose Friedman, *Free to Choose* (New York: Houghton Mifflin Harcourt, 1980), pp. 2–3.

3 Brian Grim, “Religious Freedom: Good for What Ails Us?” *The Review of Faith & International Affairs*, Vol. 6, No. 2 (Summer 2008), at <http://rfiaonline.org/archives/issues/6-2> (accessed August 12, 2009).

because of their restrictions of citizens' religious freedom⁴ (such as North Korea, Iran, and Burma) also rank among the lowest in terms of economic liberty.⁵ Regimes that are most notorious for violating religious liberty and other basic human rights also typically experience the most dismal economic results. Grim's work, citing data from The Hudson Institute's Center for Religious Freedom, shows a further correlation between religious freedom and positive social welfare outcomes:

[W]herever religious freedom is high, there tends to be fewer incidents of armed conflict, better health outcomes, higher levels of earned income, and better educational opportunities for women. Moreover, religious freedom is associated with higher overall human development.⁶

Beyond Wealth: Advancing Human Flourishing

Compared with other economic systems, freedom economics is best able to maximize income, wages, employment, and wealth. However, the primary justification for freedom economics is that it best expands the ability of individuals and families to exercise their many freedoms, to pursue their highest ends as human beings. As Nobel prize-winning economist F. A. Hayek explained:

4 U.S. Department of State, *International Religious Freedom Report 2010*, at <http://www.state.gov/g/drl/rls/irf/> (accessed March 11, 2011).

5 Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at <http://www.heritage.org/index/>.

6 Grim, *op cit.*

Economic considerations are merely those by which we reconcile and adjust our different purposes, none of which, in the last resort, are economic (except those of the miser or the man for whom making money has become an end in itself).⁷

For centuries Adam Smith's famous treatise *The Wealth of Nations* has guided economic thinking regarding the forces that lead to prosperity.⁸ While building wealth is important, Smith (a professor of moral philosophy) did not intend it to be the central focus of economic life. Rather, wealth is the result, the consequence, of a beneficial system of economic interactions

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between free peoples. As Aristotle taught millennia before, "wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else."⁹ Wealth is useful, not for its own sake, but for the freedoms it advances. These include the freedom from

financial insecurity, the freedom to work as we choose, and the freedom to provide our families with material goods. Our concern, and Smith's, is the freedom and prosperity of individuals and, by extension, of the nations in which they live.

7 F. A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1978), p. 35.

8 Adam Smith, *An Inquiry into the Nature and Causes of The Wealth of Nations* (London: Methuen and Co., Ltd., 1776).

9 Aristotle, *Nicomachean Ethics*, Book I, Chapter 5, at <http://classics.mit.edu/Aristotle/nicomachaen.1.i.html> (accessed August 30, 2009).

Is Greed Good?

Yes, according to Gordon Gekko, the character portrayed by Michael Douglas in the 1987 movie *Wall Street*.

In the real world, however, greed is as bad as it sounds. And it is certainly not the source of strength or vitality in a freedom-based economy.

Self-interest, on the other hand, is good. In fact, it's taught by mothers and Sunday school teachers everywhere.¹

Self-interest includes such mundane issues as breathing and buckling a seatbelt. Self-interest is providing for one's family, ensuring the education of one's children, and participating in the activities of society. Self-interest is living a life of integrity and good character.

Self-interest should not be confused with selfishness, which belongs in the same category as greed. Selfishness is self-interest tainted by ill motives and a false ordering of priorities. Selfishness or greed is the pursuit of self-interest despite—or in defiance of—moral, ethical, or legal restraints.

In *Wall Street*, Gordon Gekko engages in a wide variety of unethical and illegal behaviors easily recognizable as the products of greed. He proclaims these behaviors to be good in a famous speech before a gathering of a fictional company's shareholders:

The point is, ladies and gentleman, that greed—for lack of a better word—is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms—greed

1 For an important elaboration on these themes, see Jay W. Richards, *Money, Greed, and God: Why Capitalism is the Solution and Not the Problem* (New York: HarperOne, 2009) pp. 119–122.

for life, for money, for love, knowledge—has marked the upward surge of mankind.²

Wrong, wrong, and wrong.

But replace each instance of the word “greed” with the word “freedom” in the quote above, and you’ll have a statement that is as correct as the original was incorrect, both as a statement of ethics and as a justification for freedom economics. The point of freedom, in a very real sense, is the pursuit of the fullness of human dignity.

2 Quote available at <http://www.imdb.com/title/tt0094291/quotes> (accessed September 9, 2009).

Even if freedom economics were not the best system to increase income and build wealth, even if some other economic system could be shown consistently superior in raising material well-being, we should continue to spread, develop, advance, and defend an economic system based on freedom. It is superior to all others, if only because it permits the exercise of freedoms that are central to human nature. The strong economic growth that results is an added benefit.

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Toward Virtue

Freedom economics allows people to organize their economic activities in ways that advance virtue. This is true regarding both

individual motivation and action as well as social interaction and the good of society as a whole.

As a system, freedom economics rests on the recognition of the inherent dignity and moral equality of all human beings. In contrast to planned economies where decisions are made by the supposedly “enlightened” few, freedom economics works through the collective wisdom of individuals acting in accord with their own judgments and conscience. When millions of people are free to make decisions that make sense for them and their families, the aggregation of those decisions is more likely to make the most sense for society as well—certainly more so than central planners’ decisions would for millions who are unknown to them.

Freedom economics rests on the recognition of the inherent dignity and moral equality of all human beings.

In addition, freedom economics harnesses the widest range of economic activities toward human flourishing—including work effort, investment, property development, service industries, and intellectual endeavors—to which all individuals contribute in unique ways. In this way, economic freedom permits each person to pursue his own area of giftedness and interests while advancing the common good.

Such arrangements are the most likely to lead toward the good of all. In contrast to corrupt regimes in which resources are pillaged and labor is forced for the benefit of tyrannical leaders, economic freedom distributes benefits generally throughout society. Of course, producers want to charge high prices to receive as much as they can for their efforts, but they also need to keep their prices low to attract buyers. When all are free to exchange, supply and demand work in harmony for a general enhancement of prosperity.

Taxing Our Freedom

Taxes are a fact of life—they have been since before Jesus’s day. Even when the U.S. government restricts itself to functions under the Constitution (e.g., defending the nation, its citizens, and their property), it cannot operate without funding from taxes. Yet taxes inherently involve the taking of private property, and therefore a loss of freedom—the freedom to use all of one’s property as one sees fit. In a very tangible sense, taxation is a price of freedom, and the price is paid in freedom.

Each time government takes on additional activities, it typically requires additional funding (i.e., additional tax revenues taken from citizens). That means some or all citizens lose some portion of their freedom to use their personal property as they choose.

Expanding freedom is the motive for limiting government. The challenge is how to set and preserve limits.

These ideas are based on a theory of prosperity that resonates with the creative and generative characteristics of persons made in the image of the Creator. Money doesn’t grow on trees; individuals create wealth through their ingenuity and labor. Wealth creation is not a zero-sum game: One person’s gain is not another’s loss. Instead, economic growth can lead to the improvement of the circumstances of all.

Freedom economics affirms the biblical idea of the dignity of work. It spurs industriousness, productivity, and excellence. Individuals and companies operating in a competitive market are constantly challenged to find cheaper, faster, better ways to produce goods or provide services. This tends toward generally uplifting the living conditions of everyone. Moreover, productivity and efficiency demand good stewardship. Maximizing production or

service efficiency requires the wise use of resources in terms of human labor, energy, money, and materials.

Labor services provided willingly through negotiated arrangements respect a person's inherent dignity. By contrast, coerced labor or slavery implies that one person or class of people is superior to another and has either an inherent superiority or a right to use force to subjugate others. The freedom to work and negotiate terms—where each individual has the liberty to engage or not engage in service of another—rejects this tyranny and affirms the equal inherent dignity of all individuals.

Freedom economics is not license for greed. On the contrary, it provides an antidote to greed. Evidence indicates that freedom and philanthropy go hand in hand. For example, an in-depth study of donations and volunteering in the United States identified a close correlation between economic growth and charitable giving.¹⁰ The absence of freedom produces much different results. “Despotic states produce universal avarice,” writes Rodney Stark in a history of Christianity's influence on the economics and politics of the West.¹¹ When rulers hoard wealth for themselves, everyone else in society tends to scrounge what little they can as well. Tyranny is not an atmosphere that encourages beneficence.

A system of free exchange also contributes to harmonious community interactions. Exchange means that two parties make a transaction for a good or a service. Free exchange means that

Freedom economics affirms the biblical idea of the dignity of work.

10 Arthur C. Brooks, *Who Really Cares: The Surprising Truth Behind Compassionate Conservatism* (New York: Basic Books, 2006), pp. 137–160 and Table 23, p. 205.

11 Rodney Stark, *The Victory of Reason: How Christianity Led to Freedom, Capitalism, and Western Success* (New York: Random House, 2006), p. 71.

the parties negotiate the transaction to suit their mutual interests, without outside interference. As a simple example, think of the exchanges that go on in a school lunchroom. Johnny's mom packed a peanut butter and jelly sandwich; Mike has ham and cheese. Johnny likes ham and cheese better than PB&J, so he asks Mike for his sandwich. Mike likes PB&J just fine, but what he's really interested in are Johnny's potato chips. So he asks for sandwich and chips. "Deal," says Johnny. Each boy is happier with the outcome than with the original scenario. They negotiated about value and reconciled their interests. In this way, the process of exchange tends to harmonize interests and lead to increased satisfaction.

Where the rule of law prevails, freedom economics thrives, mirroring the idea of a transcendent moral order to which all are accountable. Free exchange demands that we all play according to an agreed-upon set of rules and that our transactions are free of interference from corruption or criminal activity. That security allows trust—an essential element of economic freedom—to flourish.

Freedom demands that individuals be willing to limit the extent of their own freedoms through tolerance toward others. Similarly, the exercise of freedom must accompany and be accompanied by the exercise of responsibility for one's person and actions. This understanding of limitations on economic, political, and religious freedom resonates with biblical understandings of freedom. The New Testament explains the purpose of Christian freedom in this way: Christians are truly free and thus "everything is permissible." But Christian freedom has a purpose—to serve others and to worship God freely—so anything inconsistent with that purpose is "not profitable." As the apostle Peter explains, "Live as free men, but do not use your freedom as a cover-up for evil. Live as servants of God."¹²

12 1 Peter 2:16 (New International Version).

The Global Great Recession

The global Great Recession that began in 2007 has led many to doubt the future of economic freedom. Individuals pursuing their own interests make mistakes, of course. Freedom economics does not promise perfection. It does not guarantee against losses nor does it ensure against recessions. Whatever its failings from day to day and year to year, however, freedom produces better outcomes for individuals, communities, and the nation than alternative economic systems.

Economic historians will evaluate the sources of the current economic crisis for decades to come, just as they continue to refine and adjust the narratives about the Great Depression of the 1930s. For now, it is important to recognize that the recession was global in nature. It stretched from Moscow to London to New York to Tokyo to Beijing: from an economy where oligarchs contest with the central authorities through heavily regulated, inflexible market economies to less regulated market economies and then back to a land of oligarchs and "wild west" entrepreneurs. Any penetrating explanations for the global recession must encompass this wide range of economic systems. This strongly suggests that it was not these countries' respective economic systems per se that led to the recession, but rather a worldwide pattern of government policy failures.

Even in economic downturns, the trouble with freedom economics is not primarily the nature of the economic system but wrong-headed government interference that limits freedoms and limits the ability of individuals interacting through markets to make sound decisions. It is folly to blame freedom as a causal factor. Where there is prosperity, there are risks and unpredictability that can lead to fluctuations. After all, the only absolutely stable economic system is one that consistently generates poverty: Just take a look at North Korea and Zimbabwe.

How Freedom Economics Works

The unknown tends to make us uneasy. The operation of freedom economics can be unnerving, and sometimes even suspect, because the millions of processes that make it work are mostly invisible. It's hard for us to grasp, even in the abstract, the totality of market processes at work.

Consider the milk you poured in your coffee this morning. It represents the efforts of scores of individuals—from the breeder of the cows to the dairy farmer, to the company that processes and packages the milk, to the driver who transports it to the local store, to the store owner who puts it out for sale. And these economic agents and the decisions they make are only the tip of the economic iceberg of the process that allows you to enjoy café au lait.¹³

The vast interlocking network of human actions guided by each individual's judgments as to what is best based on the information available is what led Adam Smith to his enduring reference to the “invisible hand” that guides the economic affairs of men. Individuals, seeking their own self-interest time and again, are led to transact in ways that usually provide the most benefit to the most people.¹⁴

Similarly, as we get into an airplane for a cross-country flight, only the experience of having seen aircraft take off time and again could allow us to believe this enormous contraption can actually fly us safely to our destination. Even understanding the Bernoulli principle regarding aerodynamic lift cannot completely erase occasional anxiety about the idea. Yet we still fly.

13 For a further exploration of the chain of action involved in creating a product see Leonard Read, *I Pencil: My Family Tree as Told to Leonard Read* (Irvington-on-Hudson, New York, The Foundation for Economic Education, Inc., 1958).

14 Smith, *The Wealth of Nations*, Book IV.

When we make that groggy, pre-coffee grab for the carton of milk, we're not thinking about the complexity of market processes that guided a myriad of disparate economic forces ultimately bringing milk to our refrigerator. It may even seem disconcerting to think of our morning milk depending on all those nebulous actions of the invisible hand. After all, there's some comfort in seeing the far more concrete hand of government in the economy. We see a currency in circulation that generally holds its value. We see a financial system supervised and supported by protections for depositors, investors, and shareholders. Usually, we experience a high level of personal security and security for our property.

It's tempting to think we might enjoy greater security if the economy proceeded more like a vast army than an invisible hand. In the imagery of Milton Friedman, at the head of every army is a general, giving orders to colonels, giving orders to majors, and so on, directing the economy in a neat, orderly, military manner toward the best outcomes.¹⁵ As every general who has ever commanded an army can attest, the process rarely works that well, except in the movies. And an economy is vastly more complex than an army. No governmental machinery is capable of the proper detailed ordering of so many economic processes. Only individuals responding to information and their own best interests can do so. And that's why we see the profound evidence of government's harmful "concrete hand" as it imposes price controls and regulations, levies taxes on paychecks, wastes money, and oversteps its bounds in maintaining public order.

When individuals can seek out their own best paths, they tend to choose those activities in which they are most content,

¹⁵ Friedman, *op cit.*, p. 9.

most productive, and most highly rewarded. Similarly, businesses invest in those activities that are likely to generate products that will be of highest value to those who would buy them. Time and again, resources are employed where they can create the most value most efficiently. It is a fascinating irony that efficiency is more likely to emerge from millions of individual actions than from the organized unity of central planning.

The Role of Government in Freedom Economics

Government does have a role in freedom economics. It has a central role to play in advancing and defending economic and non-economic freedoms. While history may suggest that it is difficult to establish effective government that respects individual freedoms, history is also replete with examples of how freedoms are lost in the absence of a government operating through rule of law.

Individuals on their own can defend their person and property rights only by force of arms. This is the path of chaos, lawlessness, and the fastest gun. Prosperity and a civilized society require effective government backed by the rule of law, a respected judiciary, and a well-trained, well-restrained police force. Such a government can establish and preserve the securities necessary for liberty and political freedom.

Because government can also threaten and deny freedom, the design of government institutions, with effective checks and balances, maintained by an engaged, educated electorate and supported by a free press is vital. The Founding Fathers worked hard to fashion a Constitution that would help balance the roles of government. The genius of that Constitution continues to shine through the troubles of time.

The Special Role of Prices in the Exercise of Freedom

Prices are a key element in free exchange. They allow the buyer and seller—or the employer and employee, in the case of wages—to determine value and the sharing of benefits in the exchange.

Prices are key signals to indicate scarcity and surplus, opportunity and risk. They summarize in simple, easy to understand terms the totality of all the influences that operate in the marketplace. A rise in the price of a product tends to indicate its scarcity relative to demand. This tells buyers they may need to buy less (e.g., an upward trend in gasoline prices spurs consumers to buy more fuel-efficient cars) or to seek alternatives. And a rise in price tells producers that there are gains to be had from producing more. Prices free of government interference are protective mechanisms that help vast numbers of consumers to accommodate to changes in economic conditions.

When the government dictates or distorts prices, it disrupts this free exchange and introduces the interests of a third party. There are many examples of this in the United States. Taxes distort the tradeoff between saving and consuming, between buying one good over another, between a business's investing in one activity over another. Minimum wages are a version of price-setting by the government. Many food prices are artificially high as a result of government policies seeking to enhance the incomes of farmers. Some food prices are artificially high as a consequence of other government policies. The federal mandate to increase ethanol use, for example, drove up grain prices worldwide by diverting corn from food to fuel use.

Government policies that dictate or distort market prices are a direct affront to freedom. Either the buyer or the seller is denied the opportunity to transact according to mutual agreement. These

policies are also very harmful because they may hide trends that will cause more damage in the long run if buyers and sellers do not detect them early and adjust accordingly.

Advancing Prosperity for All

An assessment of freedom economics would not be complete without considering the evidence for how it affects the most vulnerable in society. The track record is clear and the news is good: Economic systems centered on freedom tend to yield the most job opportunities and wealth, and the highest wages, salaries, and profits. Freedom economics allows societies and nations to produce the greatest material benefits for all their members with the available resources.

The United States is one of the most free nations in the world, and it has the biggest economy in the world.¹⁶ The U.S. economy also generates one of the highest levels of per capita income.

Beyond raw numbers, consider the history of the 20th century in America and the proliferation of what were once considered luxury goods, such as refrigerators, televisions, cell phones, computers, and automobiles. Today, many homes have more than one of each of these items. Even the typical household designated as poor by the U.S. government has many, or all, of these goods.

More importantly, freedom also paves the way for upward mobility and invites individuals and families to improve their circumstances through education and hard work. Though significant barriers to that mobility persist, especially in some impoverished urban and rural areas in the United States, the goal of freedom economics is to remove those barriers for all Americans.

16 Miller and Holmes, *2009 Index of Economic Freedom*, p. 415.

The empirical evidence is clear that economic freedom leads to prosperity and a general rise in standard of living for all. Around the world, economic freedom has greatly eased human misery, relieving millions of severe poverty.

Conclusion

The success of an economic system depends on how well it suits the nature and ultimate ends of individuals, or in other words, how well it enables human flourishing. Freedom is an essential recognition of human dignity, and human dignity is the proper central focus of freedom economics.

Freedom economics pursues the fundamental goal of maximizing freedom generally, recognizing that economic freedom is just one of a system of mutually reinforcing freedoms that are essential to human flourishing.

Freedom economics allows persons to organize their economic activities in ways that advance general welfare and virtue. It engenders the greatest prosperity for society because the exercise of freedom (including the freedom of exchange) tends to create incentives to use the nation's resources most wisely, most completely, and most productively, in generating the goods and services that people most need and desire. It allows individuals to direct their time and talents, as well as their income and wealth, toward the ends that are most significant and fulfilling to them, their families, and their communities.

Freedom creates the opportunity of choice. Those choices will be shaped—for good or ill—by the surrounding moral culture.

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The Christian faith has much to say about the use of freedom for good, for ourselves, and for others. Freedom informed by faith produces choices that honor and uphold human dignity.

The role of government in such an economic system is to preserve freedom to the greatest extent possible. It does this by establishing rule of law, maintaining order, and preserving the freedom of individuals to engage in economic activity as free from interference as possible.

The success of an economic system depends on how well it suits the nature and ultimate ends of individuals.

Freedom economics recognizes that the most important ends of an economic system include—but substantially

transcend—the material. The most important ends are the exercise of freedom itself and the promotion of human dignity. As these ends are achieved, prosperity, too, will follow.

J.D. Foster, Ph.D., is the Norman B. Ture senior fellow in the economics of fiscal policy at The Heritage Foundation, specializing in long-term reform in tax policy and entitlements. Previously, Foster served as associate director for economic policy at the White House Office of Management and Budget and senior advisor in economics at the Treasury Department's Office of Tax Policy.

Jennifer A. Marshall is director of domestic policy studies and the Richard and Helen DeVos Center for Religion and Civil Society at The Heritage Foundation. Previously, she worked on cultural policy issues at Empower America and served as director of family studies at the Family Research Council. Marshall is the author of *Now and Not Yet: Making Sense of Single Life in the Twenty-First Century*.

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Freedom Economics and Human Dignity

Economics for the Good of the People

The way we talk about freedom in the economic sphere tends to overlook the aspects of human experience that transcend the material. We need a way to discuss economics that captures these more profound dimensions of human flourishing, prosperity, and freedom. Freedom economics provides that, emphasizing how the force of individual freedom serves the human person and his ultimate ends. This booklet explains how economic freedom helps order our lives together in a way that reflects the nature of man, the purpose of human life, and the satisfying of material needs and wants.



214 Massachusetts Avenue, NE
Washington, DC 20002

heritage.org