

UNDERSTANDING AMERICA



Why Does Economic Freedom Matter?



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The *Understanding America* series is founded on the belief that **America is an exceptional nation**. America is exceptional, not for what it has achieved or accomplished, but because, unlike any other nation, it is dedicated to the principles of human liberty, grounded on the truths expressed in the Declaration of Independence that all men are created equal and endowed with equal rights. As Abraham Lincoln once said, these permanent truths are “applicable to all men and all times.” The series explores these principles and explains how they must govern America’s policies, at home and abroad.

About This Cover

The cover illustration depicts modern commerce—a cargo ship loading American goods for export. A Founding Father looks on approvingly, understanding how well economic freedom, championed by his generation, has worked in America. By creating a Constitutional system that lets Americans enjoy the fruits of their labor, the Founders made America prosperous and kept it free.

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Why Does Economic Freedom Matter?

America's founders knew that liberty is about more than just securing political freedoms. True liberty requires economic freedom—the ability to profit from our own ideas and labor, to work, produce, consume, own, trade, and invest according to our own choices. Thomas Jefferson underscored that point when he observed that “a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement.”

This belief in political and economic freedom has had real consequences. Americans have cultivated, amassed, and shared throughout their society the greatest stock of personal and national wealth in history. George Washington predicted no less when he observed that a people “possessed of the spirit of commerce, who see, and who will pursue their advantage, may achieve almost anything.”

Why should economic freedom matter to Americans today?



When Thomas Jefferson led the Founding Fathers in drafting the Declaration of Independence in 1776, they knew that the “pursuit of happiness” required the protection of the right to own property. Economic freedom is fundamental to liberty.



The American Founders always had a keen sense of the importance of economic freedom and the extent to which it was intertwined with political liberty. The American Revolution started as a rebellion against “taxation without representation”—against economic policies over which they had no say. That was the breaking point, the reaction to a long list of unanswered grievances against a far-away government that repeatedly abused their rights.

In light of that “long train of abuses and usurpations,” the Declaration of Independence asserted America’s liberty by appealing to man’s fundamental rights to “life, liberty, and the pursuit of happiness.” And the *pursuit* of happiness the Founders understood to require the protection of *property* because the right to enjoy the fruit of one’s labor is a fundamental tenet of liberty.

“It is evident that the right of acquiring and possessing property, and having it protected, is one of the natural, inherent, and unalienable rights of man,” Supreme Court Justice William Paterson wrote in 1795. “No man would become a member of a community, in which he could not enjoy the fruits of his honest labour and industry.”¹

The right to own property protects other freedoms. Congregations own churches where they practice religious freedom. Newspapers own printing presses, which facilitate the freedom of the press. Home ownership contributes to the financial well-being and security of families. Business property produces goods and services to trade in an open market, just as intellectual property protects ideas and innovation. The right to property guarantees the means to live in freedom and practice self-government.

In designing a framework of government for our nation, the Founders knew what they did not want. They rejected European aristocratic systems that favored the established rich and also an all-powerful government that would tax and redistribute wealth according to arbitrary political interests. Neither model secured individual liberty; both subjected people to the whims of others.

Yet they knew too little government caused problems as well. The Articles of Confederation not only failed to provide the means to protect the rights and security of the people of the nascent union but also gave Congress no authority to regulate commerce—to make commerce “regular” in order to ensure Americans had access to what they could not produce themselves. States had imposed competing tariffs that restricted the flow of goods among them

“I think all the world would gain by setting commerce at perfect liberty.”



—Thomas Jefferson
July 7, 1785



All large companies begin as small companies. Economic freedom allows them to experiment in the market. If they succeed, they prosper. Companies grow by meeting our needs. Economic freedom is good for business because it is good for us.

while trying to attract foreign trade to their own ports.

Under the Constitution the federal government's two most important functions concern the nation's security (to "provide for the common defence") and the national economy (the power to regulate interstate commerce, tax, and set the national currency). Not only does the Constitution limit the reach of the federal government into the everyday lives of Americans, but in abolishing restrictions on trade among the states² it created the world's first modern free trade area. As the young nation expanded its borders across the continent and its population grew, this freedom to trade unleashed opportunities for specialization and exchange, fueling economic growth and prosperity.³

History continues to prove the wisdom of the Founders' belief in the unity of both political *and* economic freedom. "True liberty, by protecting the exertions of talent and industry," Alexander Hamilton argued, "tends more powerfully than any other cause to augment the mass of national wealth."⁴ By empowering individuals to pursue their own gain in a market in which goods and services are traded at fair prices and property rights and contracts are enforced, they are also contributing to the economic gain of others. To this day, the United States upholds a dynamic social order in which individuals are free to rise—and to fall—on the road to success.



As a sovereign nation, the responsibility for ensuring Americans can market the fruits of their labor abroad rests with the federal government. The Founders deeply resented the King of England “cutting off our trade with all parts of the World.”⁵ Commerce was vital to their way of life, and as Benjamin Franklin wrote in the *Principles of Trade* in 1774, “No nation was ever ruined by trade.”

Then, as now, some have wanted government to impose regulations, tariffs, taxes, or other interventions to protect and advantage certain activities and to minimize economic risk. That might have made sense at the start of the country. Yet, thankfully, there always have been stronger voices who knew that such policies would wind up strangling the creativity, productivity, competition, and access to markets that people need to flourish and prosper and economies need to grow and remain strong.

The challenge for America’s leaders has always been to keep government from getting too burdensome and too involved in economic markets. That’s why throughout our history, most American leaders have agreed with the Founders that the greatest gain for each comes from free markets and free trade for all.

Andrew Jackson resolved trade disputes with France, Denmark, Portugal, and Spain to America's advantage. He signed a trade agreement with Great Britain that reopened trade with the British West Indies, and the first trade agreement with an Asian nation, Siam. He also signed trade agreements with Russia, Spain, and Turkey. Overall, under Jackson, Americans saw a 75 percent growth in exporting and 250 percent growth in imports.

The free trade tradition was carried on by presidents like James Polk, who reduced tariffs, and Ronald Reagan, who proposed a North American free trade area and signed a free trade agreement with Canada. His vision became reality when Bill Clinton signed the North American Free Trade Agreement in 1993—creating the world's largest free trade area and increasing trade in the hemisphere from \$297 billion in 1993 to almost \$1 trillion in 2007.

What these presidents understood is that economic freedom matters. Tariffs make the cost of imports higher and have a dampening effect on competition, which would otherwise help bring prices down. But it means much more than opening trade by reducing tariffs, as the annual Heritage Foundation/Wall Street Journal *Index of Economic Freedom* documents. If economic policies cause prices

to rise, the value of the dollar in our pockets declines, and with it our ability to buy and do what we want; it cheapens our labor. If government imposes additional costs on consumers and businesses through higher taxes, fees, and regulation, or restricts the fair use of our property, economic freedom falls.

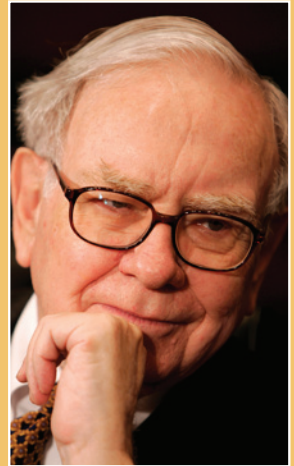
The loss of economic freedom hits the poor especially hard. Over the past decade, countries that increased economic freedom saw poverty levels fall almost twice as much as countries that lost freedom. People in countries with more economic freedom were not only happier, but more prosperous. The correlation between economic freedom and prosperity is stunningly high, with more freedom translating to greater per capita income.⁶

As Thomas Jefferson wrote to John Adams in 1785, “all the world would gain by setting commerce at perfect liberty.”⁷



Economic freedom—free markets at home and free trade in the world—is essential to human liberty. Without it, people are unable to improve the conditions under which they and their posterity

“[The] genius of the American economy, our emphasis on a meritocracy and a market system and a rule of law has enabled generation after generation to live better than their parents did.”



—Warren Buffett
August 22, 2008



The Soviet Union promised to feed Russia, but it operated through force. In the end, it could not even provide bread, and it took away all freedoms. Liberty is indivisible: there is no lasting political freedom without economic freedom.

will live. Worse, they are vulnerable to oppression, especially by the state. We only need recall the human toll of slavery and Soviet Communism to understand what Friedrich Hayek meant when he noted that “to be controlled in our economic pursuits means to be always controlled,” and that if all economic decisions require the approval of government, then “we should really be controlled in everything.”⁸ In the end, liberty is whole and universal: The world will not be free politically if it is not free economically.

America’s openness to trade has always fueled its economic expansion. Over the past 50 years, the United States led the way in expanding free trade worldwide. For the most part, we have taken George Washington’s advice to “hold an equal and impartial hand ... diffusing and diversifying by gentle means the streams of Commerce.”⁹ Yet today, as more and more nations have decided to follow that lead, political leaders in the United States have chosen to intervene more directly in the economy and impose heavy regulations that put American businesses at a competitive disadvantage.

If America’s commitment to economic freedom—not only by its policies but by its leadership in the world—continues to flag, it neglects its national interests and betrays its core principles. In

doing so, it also jeopardizes the security, prosperity and liberty not only of the United States but much of the world as well.



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Enduring Truths

For links to these titles, go to heritage.org/UnderstandingAmerica.

- **Hernando de Soto**, *“Is Economic Freedom for Everyone?”*

Hernando de Soto is one of the world’s foremost authorities on property rights and free markets. In this lecture, he explains why empowering the poor with property rights is an antidote to poverty, and a real and sustainable way to promote development.

- **Milton Friedman**, *Capitalism and Freedom*

In this classic work, Friedman, one of the 20th century’s greatest economists, explains the fallacies of many forms of government intervention in the economy, and defends economic freedom as both necessary in itself, and as vital to political freedom.

- **Jennifer A. Marshall and J. D. Foster**,
Freedom Economics and Human Dignity

The way economists talk about freedom overlooks important aspects of the human experience. This essay shows how economic freedom helps us order our lives in a way that reflects human nature, the purpose of life, and the satisfying of material needs and wants.

- **Thomas West, *The Economic Principles of America's Founders***

Although there are many scholarly treatments of the Founders' understanding of property and economics, few of them present an overview of the complete package of the principles and policies upon which they agreed. Even the fact that there *was* a consensus among the Founders is often denied. West summarizes this consensus, and explores where and how we continue to adhere to it.

Current Issues

For links to these reports, go to heritage.org/UnderstandingAmerica.

- **WORLDWIDE ECONOMIC FREEDOM. Terry Miller and Kim R. Holmes, the 2011 *Index of Economic Freedom*.**

For more than a decade, The Heritage Foundation and *The Wall Street Journal* and have tracked the march of economic freedom around the world in this influential index. Supported by a sophisticated online site that offers the full book, data, graphs, and much more, this is the place to go to learn about the state of economic freedom today.

- **SPECIAL INTERESTS.** James Roberts, “Cronyism: Undermining Economic Freedom and Prosperity Around the World,” August 9, 2010.

Backroom deals between members of the governing class and their hand-picked cronies influence the legislative, executive, and regulatory actions of governments around the world. Heritage expert James Roberts explains why government intrusions into the private sector as a partner, financier, or outright owner are not only morally hazardous, but toxic to economic freedom.

- **FREE TRADE AND GROWTH.** Bryan Riley, “A Prescription for Export Growth—and Economic Recovery,” August 10, 2010.

President Obama has pledged to double U.S. exports over the next five years—an ambitious goal. But the President’s strategy of creating Export Promotion Cabinets and subsidizing loans is not the way to make that happen. Heritage expert Bryan Riley provides better options for boosting U.S. exports.

Endnotes

- 1 William Paterson, *Vanhorne’s Leese v. Dorrance*, 1795.
- 2 U.S. Constitution, Article I, Section 8, Clause 1, and Article I, Section 9, Clause 5.
- 3 For a classic explanation of the benefits of specialization and trade, see Book 1, Chapter 3 of *An Inquiry into the Nature and Causes of the Wealth of Nations* by Adam Smith.
- 4 Alexander Hamilton, “Defense of the Funding System,” July 1795, in *Papers of Alexander Hamilton*, edited by Harold C. Syrett (New York: Columbia University Press, 1961–1979), Vol. 19, p. 32.
- 5 Declaration of Independence.
- 6 Terry Miller and Kim R. Holmes, *The Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2011), at www.heritage.org/index.
- 7 Jefferson to Adams, July 7, 1785, in *The Writings of Thomas Jefferson*, edited by Andrew Adgate Lipscomb and Albert Ellery Bergh (Washington, D.C.: Thomas Jefferson Memorial Association, 1903-4), Vol. 5, p. 48.

- 8 F. A. Hayek, *The Road to Serfdom: Texts and Documents—
The Definitive Edition*, edited by Bruce J. Caldwell (Chicago:
University of Chicago Press, 2007), p. 126.
- 9 George Washington, “Farewell Address,” May 15, 1796.

About *Understanding America*

AMERICANS HAVE ALWAYS BELIEVED that this nation, founded on the idea of freedom, has a vital responsibility to the rest of the world. As George Washington first recognized, the “preservation of the sacred fire of liberty” depended on the American people. These words remain true today.

Understanding America explores how the United States’ commitment to the universal truths of human equality and the right to self-government—as proclaimed in the Declaration of Independence—requires a vigilant defense of the cause of liberty, both at home and abroad.

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Economic freedom is a crucial component of liberty. It provides individuals with the ability to profit from their own ideas and labor; to work, produce, consume, own, trade, and invest according to their personal choices. It is necessary for self-government. This volume of *Understanding America* explores the framework the Founders established for an economically free nation, and what it means for the United States and the rest of the world.

