

# UNDERSTANDING THE RELATIONSHIP OF ECONOMICS AND FREEDOM

By Jim Jess

The system of representative government established in the U.S. Constitution was designed to "secure the blessings of liberty" for the citizens of the American republic. Political freedom is guaranteed in the Constitution, which established a system that derives its powers from the consent of its citizens. The government is organized into three major departments or branches and includes a system of checks and balances to curb abuses of power. And the first ten amendments to the Constitution, known as the Bill of Rights, protect the individual from abuses of governmental power.

Although the representative form of government and its powers were well defined in our Constitution, the Founding Fathers did not prescribe the type of economic system their new nation should have. It is apparent to thinking men and women, however, that in order for liberty to be secured for citizens, the corresponding economic system would have to be one that is consistent with the principles of a free republic. Political freedom cannot flourish in an atmosphere where economic choices are controlled by the state. For the Founders, the economics of free enterprise, or capitalism, eloquently described and detailed in Adam Smith's *The Wealth of Nations*, provided the most appropriate form of economic organization for the new United States. It is intriguing that Smith's work was published in 1776, the same year the thirteen American colonies declared their independence from Great Britain.

The idea of individuals making free-will choices in the marketplace, the hallmark of the economic system Smith espoused, made perfect sense to America's Founders. They were committed to freedom for the individual, economically as well as politically. The Founders set up no governmental structure to control economic decisions. In the Constitution, however, they gave Congress the power to regulate commerce in order to serve the general welfare of the citizens. Since the early days of the republic, our leaders have supported the principles of free enterprise. Unfortunately, in the 1930s, our leaders began to forsake many of our founding principles, including a strong commitment to free enterprise. It is ironic that those free enterprise principles that have helped to bring our nation the greatest prosperity in the history of mankind are being replaced with the principles of the welfare state.

Collectivism, the economics of political control, has become a dominant force in our nation. Many of the biblical principles that provide the basis for free enterprise are no longer the standards for many of the policies of our federal and state governments. Before the rise of the welfare state an honest day's work for an honest day's pay was the standard. Individuals took care of themselves without social-welfare programs. Needy people in the community received assistance from families, business groups, churches, charities, or, perhaps as a last resort, local governments. From the early days of our nation, our economic system functioned according to what most people would call "self-sufficiency." The beauty of how the system worked in those days, and how it continues to function today, albeit with governmental barriers, is that individuals can choose to rely on God and actually become "God-sufficient." It may appear that a person is "self-sufficient" or a "rugged individualist," but few men or women rely totally on themselves. Everyone needs the help of someone else to achieve things in life. The important point here is that free individuals acting on their own have achieved great things without the assistance of the government. And those who believe God can trust Him, not the government, to be their sufficiency.

II Corinthians 9:8:

And God *is* able to make all grace abound toward you; that ye, always having all sufficiency in all *things*, may abound to every good work:

Philippians 4:19:

But my God shall supply all your need according to his riches in glory by Christ Jesus.

The religious freedom guaranteed in our Bill of Rights, coupled with economic freedom, has allowed spiritually-minded Christian people, throughout our nation's history, to exercise one of the biblical principles of

prosperity, tithing, and to see the benefits of applying this principle.

Malachi 3:10-12:

Bring ye all the tithes into the storehouse, that there may be meat in mine house, and prove me now herewith, saith the Lord of hosts, if I will not open you the windows of heaven, and pour you out a blessing, that *there shall not be room enough to receive it.*

And I will rebuke the devourer for your sakes, and he shall not destroy the fruits of your ground; neither shall your vine cast her fruit before the time in the field, saith the Lord of hosts.

And all nations shall call you blessed: for ye shall be a delightsome land, saith the Lord of hosts.

The exercise of this biblical principle – along with several other principles – has brought our nation a prosperity that has been unparalleled in the history of the world. Other important principles for national prosperity include individuals working heartily as unto the Lord (Colossians 3:23) and the principle of free will. The exercise of freedom of will to choose goods and services in the marketplace is at the heart of the free enterprise system. The free market works when individuals exercise their free will in the marketplace and businesses have the freedom to respond by supplying goods and services desired by the consumers. At a very basic level, this defines the free enterprise system.

What appears to have escaped the observation of many of our citizens are the moves afoot to forsake the free enterprise system for a collectivist economic system. This collectivist system is not the companion of the free republic, but rather the companion of monarchies, oligarchies, and dictatorships. It is the economics of slavery and leads people down what Nobel Prize-winning economist Friedrich Hayek called "the road to serfdom," in a fine book that carried that title.

This article will help the reader to develop a greater understanding of the two major economic systems, free enterprise and collectivism, their companion forms of government, and how they function. This understanding will enable the citizen to evaluate government economic policies and thereby communicate more effectively with those elected to represent us.

## TWO ECONOMIC SYSTEMS

### Free Enterprise

The free enterprise system, also known as capitalism, has fueled the greatest economic development of any economic system in the history of mankind. Under capitalist systems, great strides have been made in the development of agriculture and food processing, manufacturing processes, development of new technologies, and the use of leisure time. Such developments have taken place, in part, because men and women have been encouraged to strive for excellence because they were rewarded financially for their work. This economic, scientific and technological progress is a product of the capitalist system.

Capitalism is so named because of the word "capital," which is simply the means of production. For a carpenter, for example, the capital may consist of a hammer, saw, tape measure, and other tools. For many individuals who work for an employer, the employer owns the capital and the employee "sells" his or her talent, abilities, and labor to the employer. In the capitalist, or free enterprise system, capital is privately owned and privately controlled.

The existence of private property and private control of that property has allowed free individuals and businesses to compete with one another in the market, resulting in a generally high quality of goods and services offered. The level of competition and quality of products in capitalist nations has never been duplicated in non-capitalist societies. Furthermore, the degree of individual choice in the marketplace is unmatched by other economic systems. Capitalism rewards those who are willing to expend effort to produce a good or supply a service. The essence of capitalism is personal initiative, which is determined by the free-will action of the individual.

The ultimate reward to the owner of capital in the free enterprise system is profit. "Profit" is not a dirty word, nor is it unethical. An ethical exchange is described by Adam Smith's standard in *The Wealth of Nations*: "Just value given for just value received." In the free enterprise system, the free market works when individuals make choices – due to needs or desires – to obtain goods or services from other individuals or businesses that provide goods or services. An exchange takes place in which property is transferred to one party in exchange for goods or services. If the property that is transferred is money, something has been purchased: a sale has taken place. If the property that has been transferred is a good, a barter arrangement has been consummated. In either instance, both parties exercise their freedom of will to exchange property for new property or consumable item (a good) or a service. The exchange is an ethical one because both parties exercise their free-will consent and both parties benefit from the exchange. Profit is what the seller gains beyond what has been expended in labor, materials and other resources to produce a good or supply a service. Profit allows the entrepreneur to expand his business, thereby offering his goods and/or services to more customers who will similarly benefit.

### Collectivism

The "founders" of collectivist economics were Karl Marx and Friedrich Engels, who wrote *The Communist Manifesto*. It is perhaps better known as a political document because it has served as the "bible" of communism. This shows how intertwined politics and economics can be. Because of the coercive nature of communism and other collectivist systems, such systems must be imposed on an unwilling populace by a political vanguard and an overpowering government. This is what occurred in Russia in 1917 and in China in 1949. In each instance, bold, power-hungry tyrants, who had developed a following, took over the machinery of government and imposed political and economic changes that brought untold hardship to their nations, all in the name of "progress." In both cases, the leaders, Vladimir Ilyich Lenin (in Russia) and Mao Zedong (in China) had powerful armies and political followers to support their claims for power. The death and destruction that they brought upon their countrymen was all based on their utopian promises of a better life and their adherence to a twisted approach to government that sacrificed individuals and the rights of citizens for the supposed good of the state.

Communism, socialism, fascism, Nazism, and similar economic systems are referred to as "collectivist" systems because property under such economic doctrines is to be owned or controlled "collectively," by the people of a society, as institutionalized in the state. In practice, political leaders end up controlling the capital, or the means of production. They use the economic system not to serve the needs of the people as determined by the demands of the marketplace, but to serve their own personal desires. Private property or the control of property by private individuals is either illegal or severely limited under collectivist systems and profit is prohibited or curtailed even for entrepreneurs. The Marxist standard for the functioning of the market is "From each according to his ability, to each according to his need." The principles that govern ethical exchanges in a free market are generally non-existent in a true collectivist state. Exchanges in the marketplace under a collectivist system are based on perceptions of wealth as determined by the government. The government determines the value of goods and services, not the individuals in the free marketplace.

A comment should be made at this point about the economic system we have in the United States today. To the political scientist, and to many economists, our economic system is considered a "mixed economy." This term is used because a mixed economy borrows elements from both the free enterprise and collectivist economic systems. While our economic system is essentially a capitalist one, it also has features of public ownership and/or public control, such as in the sectors of public utilities, space travel and exploration, and public transportation. Such "mixes" may make sense in some circumstances, such as in the case of public utilities, but public policy should always seek to implement and preserve the principles and practices of free enterprise and free markets. The public utilities sector is one area where the competition of the market could make the delivery of services difficult for consumers if more than one company tried to provide such services. Conventional wisdom has been that a "natural monopoly" should be allowed and regulated by a government agency. As new technologies are developed, however, that may render continued monopolies "unnatural," governments should abandon regulated monopolies for free market solutions.

Technological innovation has already transformed the telecommunications industry. A century ago, telephone systems developed and existed based on the availability of copper wires. The phone companies could offer service only where telephone lines could be constructed. This required phone companies to set up telephone poles and telephone lines, as well as plan and negotiate extensively to secure right-of-ways with property owners and local governments. The telephone companies functioned as regulated monopolies, and were the only choice for consumers, hence the public regulation. Today, much of the transmission of telephone calls occurs through microwaves and satellite signals. While it was once practical, common sense for just one company to put up phone lines and run cables, this is no longer a constraint. Numerous phone companies who are licensed to use the airwaves to transmit communication signals can now compete in the marketplace for the privilege to provide consumers telephone services. There is no longer a need for only one government-approved monopoly to provide telephone services.

Most areas of excessive governmental regulation, ownership, or control, however, are not justifiable based on the principles of free enterprise. As technology continues to advance, more choices may become available to consumers of utilities. In time, regulated monopolies may be a thing of the past.

## Politics and Economics

Representative government is based on the biblical concept of freedom of will. We Americans call it liberty. Liberty is the essence of private life in our society. Free individuals make their own decisions about how to lead their lives: where they will live, the sort of work they will do, and with whom they will associate. Many of these choices are economic decisions or have economic repercussions. In a republic that upholds the rights of the individual, government has no right to make such decisions for the citizens. The free enterprise economic system, like our republic, is based on the notion of liberty. Citizens exercise their freedom by making economic choices in the marketplace.

Outside of the republic, nearly every other form of government exists to perpetuate the power of those who rule. These governments are administrative states that control economic decisions through “command” economic systems. Such systems are not based on the exercise of the free will of the citizens. Governments that control these societies and their economies can be categorized according to who holds the power in the society. By understanding who holds political power, we can understand why there is only one basic type of economic system – the collectivist system – that corresponds with these political systems.

## COMPANIONS OF COLLECTIVISM

### Monarchy

A monarchy is a government that is ruled by one individual and, perhaps to some degree, his family. In the strict definition of the word, a monarch holds total power in the matters of state. In practice, a monarch may not use all his legitimate powers. He may choose to allow family members or close friends and associates to exercise authority in certain areas. Monarchy was the predominant form of government in biblical times. An example of a modern monarchy is Saudi Arabia, in which the monarch, King Abdallah, rules, with members of his family holding key positions in the government.

A variation on the form of government known as monarchy is the constitutional monarchy that exists in Great Britain and the Netherlands. The hereditary monarch is a ceremonial head of the government, but an elected prime minister exercises most of the power of the government. An elected parliament also has a role in the policy-making process. In a system such as this, free enterprise can certainly function as long as government policy does not inhibit the operation of free market principles.

### Dictatorship

A dictatorship is a government ruled by one individual who generally takes power and then maintains control by use of the military. Dictatorships may pass from a father to a son, as was the case in the past with

the Duvaliers in Haiti, but usually it is simply the survival of the most ruthless that is the rule of political control. Authoritarianism, totalitarianism and a repression of individual rights are the characteristics of most dictatorships. Perhaps King Nebuchadnezzar of Babylon was the closest thing to a dictator recorded in the Bible. His totalitarian approach to ruling his subjects' lives distinguishes him from an ordinary monarch. For example, he went so far as to demand that everyone worship a golden image that he had erected. The regime of the late Saddam Hussein of Iraq and the present government of Bashar al-Assad in Syria serve as examples of modern dictatorships, although Saddam's government was – and Assad's government still is – distinguished by elements of an oligarchy, which is another type of government. (Incidentally, Saddam Hussein ruled the same land that was once the seat of Nebuchadnezzar's government.)

### Oligarchy

An oligarchy refers to a government ruled by a few. A group of individuals exercise the powers of government. The picture of the smoke-filled room may come to mind, but we are talking about more than just political manipulations of the rich and powerful when we speak of a government ruled by an oligarchy. An example of a nation ruled by an oligarchy is the People's Republic of China. (REPUBLIC?!) China is ruled by the leaders of the Chinese Communist Party and powerful governmental leaders, who are all chosen by the National People's Congress, which meets every five years or so. The representatives to this congress are all members of the Communist Party and are chosen by Communist Party congresses that meet in each of China's 29 provinces. While there is an element of local participation, this is hardly a "republic." It is an oligarchy ruled by the Communist Party, where the top leadership has vast power over the people. The government does not protect the rights of the individual, and the government makes many of the economic decisions.

In recent years, the Chinese Communist government has allowed businesses that operate with the permission of the government to function with less state intervention and make many decisions on their own. This has influenced significant economic expansion and the development of a number of industries that now export goods to the United States and other affluent nations.

Governments that we may define as dictatorships often begin as oligarchies, and to a degree, may continue as such behind the scenes. This is because those who develop into dictators often rise to power with the aid of several other powerful individuals. Once the top man is in power, however, he may ruthlessly eliminate his colleagues because they are obstacles to his exercise of total power in the affairs of state. Joseph Stalin was notorious for eliminating any rivals to his leadership when he ruled the Soviet Union.

### WHY THEY CHOOSE COLLECTIVISM

The governments just described neither rule by consent of the governed nor strive to protect the individual liberty of their people. They may serve the people at times by providing health care, roads and other infrastructure, national defense, and a police force, but the main focus of the government is to serve those who hold the levers of power in the society: the heads of state, the bureaucracy, the ruling political party, and the military. One of the deceptive strategies of the twentieth century was to claim that those who ran the government were the true representatives of the people because of their adherence to some useless political philosophy, such as communism.

This strategy eventually backfired in the former Soviet Union, not to mention Eastern Europe. Although Russia and former Soviet "republics" replaced the U.S.S.R. and became independent nations, much can be learned from the mistakes of the Soviet people and the international community during the era of Soviet Communism. Furthermore, several authoritarian regimes, including North Korea and Cuba, among others, still mouth the same backward logic of communism. Because of their philosophical purity, communist leaders claim they are the most qualified to decide the allocation of "the people's" resources. This is just a lie to cover for their stealing from their people.

No government has a right to those things that a man or woman gains through hard work and good

stewardship unless the people decide to form a government that will use a small portion of the people's wealth to provide the basic services of government. Taxes are necessary to pay the price of legitimate government functions and services. But "eating out of the people's substance," to quote the Declaration of Independence, is unethical and wrong. It is stealing. Collectivism is a system based on the concept that everything belongs to the government. This is legalized plunder, and is, therefore, totally unethical.

Governments adopt collectivist, or command economic systems, because men love money and power. Many leaders of collectivist systems believe they are the ones most qualified to make economic choices for their citizens. They also realize, first and foremost, that they are in a position to take care of themselves, their families, and their friends before they have to do anything for the common people. Collectivism is the only real alternative to the free enterprise or free market system. The biggest difference between the two systems is who makes the economic decisions in the society. Under the free market system, the individuals in the society make the economic decisions. Under collectivism, of which communism, socialism, and fascism are examples, the government makes these decisions for the citizens.

There are obvious variations and exceptions to the principles of both free enterprise and collectivism as practiced by various governments, but the careful observer can recognize the basic principles of each system. For example, free enterprise respects the rights of private property, while communism denies private ownership of property. Private ownership or private control is denied under most collectivist systems because those in power in the government want to make the decisions on how to use this property, which may include farmland, natural resources or manufacturing plants. The political doctrines of the collectivists say that the "enlightened leaders" must make the decisions for the rest of the people because "the masses" are not enlightened and need the state to guide them. Whether the "enlightened leaders" actually believe this Marxist dogma is open to debate. What is undeniable, however, is the desire of these people to control the wealth of their societies and to serve themselves at the expense of their people if necessary.

Contrary to popular belief, collectivist systems do not place the needs of society first – not even "benevolent socialism" does this. The priorities of those in political control come first in collectivist systems. If the society is one of the socialist "Western democracies," the socialist goals of the government will demand the most attention from those in political office, but that doesn't mean the attainment of these goals will bring the greatest benefit to the people.

Central planning and control of property and resources by government bureaucrats characterize collectivist systems. Under collectivist systems, the state owns or controls the capital, which is the means of production in the economy. This may mean state ownership, as in the case of socialism, or it may simply mean state control, as in the case of fascism. Nazism, or National Socialism, offers a mix: state ownership of major industries and some state control. Communism is the most extreme of the collectivist systems: the state owns and controls all of the capital, at least in theory. In all collectivist systems, those who control the government, instead of the individuals in the society, make the decisions concerning the allocations of resources. The political leaders determine who will receive which goods and services at what time, at what place and in what manner.

In contrast to providing the so-called "social justice" that is the reputed hallmark of collectivist systems, the state-controlled systems are extremely unjust. Those in power, the rulers and managers of state agencies, are those who decide for everyone else what they will receive and at what price. They decide who will be the privileged few and who will not. The collectivist system destroys individual liberty by removing choices from the citizens and giving them to government bureaucrats. The state, not the individual, is sovereign. The individual is merely a tool of the state, a ward of the state, or a cog in the state machinery. The government claims that the citizens are "protected" from the harsh realities of life by a benevolent, paternalistic "nanny state" that decides how the citizen will conduct his life. The harsh reality, more often than not in these systems, is widespread poverty and sub-standard living conditions. The people are impoverished while the leaders live quite well. The state makes all of the major decisions for the citizen without the consent of the citizen. Collectivism is a system of enslavement.

If we, the citizens, see our government starting down this path of enslavement by the nature of the policies our leaders establish, then it is time for us, the citizens to speak up and get the attention of our elected officials. The Founding Fathers of our nation never intended the United States to be enslaved by its government through overbearing rules and regulations that sacrifice individual liberty for the convenience of the state. They never intended for our government to dominate our national life in such a manner that the people would serve the government. Reversing a governmental preference for collectivist solutions, or attempts by our government to promote such solutions, should be an urgent priority for any American who loves freedom. These assaults on our freedom should not go unanswered by the citizens.

## FREE ENTERPRISE, THE CONSTITUTION AND PRIVATE PROPERTY

In the free market, individuals who “vote” in the marketplace with their dollars make decisions regarding the allocation of resources and the use of property. Their purchases involve not only the important concept of free will, but also the decision on how they will use their property, be it money, land or other goods. This use of property stems from the right to earn, steward, protect and use one's property.

The Constitution guarantees the right to one's property in the Bill of Rights:

### Fifth Amendment

No person shall...be deprived of life, liberty, or property without due process of law; nor shall private property be taken for public use without just compensation.

The Fourteenth Amendment guarantees the respect of these same rights by the states:

...No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law...

The assault on property rights is not a new thing. Liberty-loving Americans have resisted moves by over-zealous government agencies for years. In the late twentieth century, moves by federal and state governments to enforce environmental laws and actions by local governments to enforce certain zoning laws led to the growth of the property rights movement. Several landmark U.S. Supreme Court decisions regarding property rights also brought public attention to this set of issues. The struggle to guarantee the rights of property is an ongoing one, as governments are faced with making land-use decisions that require deciding between the importance of environmental preservation and the rights of landowners to develop land in order to provide various services and conduct profitable business enterprises.

Much time could be spent describing these various court cases and disputes over the rights of property, but one thing is certain: such disputes would never take place in a collectivist country where the government has undisputed power. The government would make the decision with little or no public input. Or, the government would decide to develop an area and ignore all environmental concerns, which has happened many times in formerly communist countries and still does in countries that are ruled by authoritarian regimes. Such countries have serious environmental problems that will require years to repair, in part because the governments do not rule by the consent of the governed and the people have no opportunity for comment concerning such decisions.

## CONCLUSION

Recognizing the importance of economics as it relates to the policies of our government is important for every citizen. Economics, it has been said, is the study that describes who gets what, where, when and how. Economics deals with the allocation of what are referred to as “scarce resources.” The free enterprise, or free market system, provides the best system for the efficient and ethical allocation of these resources. The individual consumer, the citizen, makes these decisions in the marketplace. The alternative is for the government to make such decisions for the individual, which is inconsistent with individual freedom.

Certainly the government must make decisions about the use of public funds. Government leaders must decide how much they will spend on national defense, the criminal justice system and the maintenance of public parks, for instance. But all of these decisions are to be made through budgets enacted by duly elected representatives of the people. These officials must also make numerous decisions about public lands and buildings, the regulation of commerce, rules governing international trade, public debt and relationships with other nations. Such policies should be guided by a commitment to maintain the free enterprise system and to protect the rights of citizens. Furthermore, the government should live within its means and not burden the people with public debt. Approaching economic policies with this understanding and a genuine commitment to the economics of liberty, the companion to our free republic, will help to guarantee the blessings of liberty for future generations.

*Jim Jess is President of the Foundation for Constitutional Education.*

© 2008, Foundation for Constitutional Education, Inc.