

Political Economic Digest Series 27

Dear Political Economic Digest Series Participant,

Welcome to the twenty seventh issue of Political Economic Digest Series. In the last issue of Political Economic Digest Series we discussed about Freedom and Its Importance for Prosperity. This issue will cover readings on Political and Economic Freedom. The first reading - an essay “Political and Economic Freedoms Together Spawn Humanity’s Miracles” by Temba A. Nolutshungu is an extract from the book The Morality of Capitalism. The second reading “Why Does Economic Freedom Matter?” is an article by Kim R. Holmes and Matthew Spalding. The third reading “Political And Economic Freedom - Two Sides Of The Same Coin” is an article by Dr. Mark Cooray.

The first reading – an essay “Political and Economic Freedoms Together Spawn Humanity’s Miracles” by Temba A. Nolutshungu focus on economic freedom and its potential in developing a country. The essay has presented various examples of how economic freedom and political freedom can make a difference in the lives of the people.

The second reading “Why Does Economic Freedom Matter?” by Kim R. Holmes and Matthew Spalding discusses the context of America and how freedom should not only be political but economic too.

The third reading “Political And Economic Freedom - Two Sides Of The Same Coin” by Dr. Mark Cooray talks about how political and economic freedom are incomplete without each other and how they result in the betterment of human life.

We hope you enjoy the readings.

Political and Economic Freedoms Together Spawn Humanity's Miracles

- Temba A. Nolutshungu

In this essay, the South African economist Temba A. Nolutshungu draws from his country's recent history to distinguish majority rule (which was won after decades of struggle against minority monopolization of power) from freedom, and shows the liberating potential of economic freedom.

Temba A. Nolutshungu is a director of the Free Market Foundation in South Africa. He teaches at economic empowerment programs throughout the country and is a frequent contributor to the South African press. He was a commissioner of the Zimbabwe Papers, a set of policy proposals for Zimbabwean recovery after the disaster of Mugabe's policies and submitted to Zimbabwean Prime Minister Morgan Tsvangirai. Nolutshungu was prominent during his youth in South Africa's Black Consciousness Movement.

In July 1794, Maximilien Robespierre, revolutionary republican, radical democrat and driving force behind the Reign of Terror in revolutionary France, during which some 40,000 French men and women died on the guillotine as "enemies of the nation," was put to death by his political opponents. Moments before his death, he addressed the mob that used to adulate him but now was baying for his blood, with the following words: "I gave you freedom; now you want bread as well." And with that ended the Reign of Terror.

The moral we can draw from this is that while there may be a link between political freedom and economic well-being, they are not the same thing.

Economic well-being is a consequence of freedom. In South Africa, with a formally recorded unemployment rate of 25.2 percent (a figure which does not include those who have given up looking for work), the disjuncture between political freedom and economic well-being reflects a potentially cataclysmic state of affairs—a danger exacerbated by successive political administrations repeatedly promising all sorts of benefits to their constituencies.

To deal with the challenges that face us, we have to clear away certain misconceptions.

Job creation is not a role of the state. For jobs to be sustainable, they have to be created by the private sector. Government generated jobs are at the taxpayers' expense and amount to subsidized employment. Being unsustainable, they have no positive economic consequence. The private sector is the main creator of wealth, and the state sector a consumer.

Money is merely a medium of exchange for goods and services and should therefore relate to and reflect productivity. When I visited post-communist Russia and Czechoslovakia in 1991, the joke doing the rounds was that the workers pretended to work and the government pretended to pay them. Thus, in my opinion, when we talk about meaningful job creation we should focus solely on the private sector.

This begs the question as to which policies should apply to private enterprises. Which ones will enhance their productivity and which retard it? What should be done?

Let's examine the principles that underlie the simplest of exchanges between two parties. Simple transactions can serve as an example and a microcosm of the bigger economy. They should inform policymakers as to which policies are most compatible with human nature, because the human factor is pivotal in the economic context. Start far back in time with a hypothetical caveman who is skilled at hunting but inexpert at making a weapon for hunting. Our caveman meets a skilled weapon maker and agrees to exchange part of his quarry for a weapon. Both men come away from the transaction feeling they have profited by getting in return something of greater value to them than what they gave away. Sooner or later, the weapon maker finds that if he specializes in weapon making, instead of going hunting, he can barter the weapons for fur, meat, ivory and so on. He is in business. He prospers and all his customers prosper because they are now using more efficient hunting weapons.

What is important to note about this scenario is that there is no force or fraud involved. No third-party involvement. No party that prescribes the rules of conducting business. The rules that the transacting parties uphold come about spontaneously. They comply as though with a natural order. This is what the late economist Friedrich Hayek referred to as the spontaneous order and part of this order is that private property is reciprocally respected.

From this simple example, one can extrapolate that in the modern day economy, in a country where the government refrains from interfering in the economic arena, there will be high economic growth and concomitant socio-economic benefits. In other words, if a government promotes the economic freedom of producers and consumers and allows them to engage in transactions that do not entail force or fraud, the country, and its people, will prosper. This is a sure way to reduce unemployment, improve education, and create better health care.

These fundamental principles apply to all economies, regardless of the cultural context within which each has taken shape. The persistent "work ethic" myth warrants critical attention. This view implicitly reinforces national or ethnic group stereotypes in terms of having or lacking a work ethic, the logical extension of which is that the poor are poor because they lack a work ethic and the rich are more successful because they do have one—a very dangerous view to uphold, especially when it coincides with race.

Before the Berlin Wall came crashing down in 1989, West Germany was the second biggest economy in the world while East Germany was an economic disaster zone. These were the same people, same culture, and the same families in some cases before they were divided after World War II. A similar judgment can be made with regard to the two Koreas: the South an economic giant and the North an economic abyss that continues to absorb foreign aid. Again, same people, same culture. And what of the contrast between Mainland China and Hong Kong, before 1992 when Deng Xiaoping ushered in radical free market reforms after announcing that it was glorious to be rich and that it didn't matter if the cat was black or white so long as it caught mice? Yet again, same people, same culture, and the same

telltale economic discrepancies. The difference was caused, every time, by the degree of freedom allowed to the economic actors.

Since 1992, thanks to the most radical free market reforms seen in recent years, China now looms large as the third biggest economy in the world. And sadly, in contrast, in the words of Bertel Schmitt, “the United States picked up that socialist economic playbook that Deng Xiaoping was smart enough to throw away.

The legislative and institutional framework within which economic activity takes place, and, in particular, the degree of regulation to which an economy is subjected, is the determinant of how wealthy a country and its inhabitants can be. In other words the degree to which governments allow individuals to exercise economic freedom will determine their economic outcome.

These words in 1986 by Professor Walter Williams, author of the thought-provoking book *South Africa's War Against Capitalism*, sum it all up: “. . . the solution to South Africa's problems is not special programs, it's not affirmative action, it's not handouts, and it's not welfare. It is freedom. Because if you look around the world and you look for rich people, diverse people who have the ability to get along fairly well, you are also looking at a society where there are relatively large amounts of individual freedom.”

This extract is taken from the book *The Morality of Capitalism*

Why Does Economic Freedom Matter?

- **Kim R. Holmes, Ph.D. and Matthew Spalding, Ph.D.**

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?

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.”

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 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 states 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.

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.” 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.” 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.

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

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 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.” 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.” 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.

Kim R. Holmes, Ph.D., is Vice President of Foreign and Defense Policy Studies and Director of the Kathryn and Shelby Cullom Davis Institute for International Studies at The Heritage Foundation.

Matthew Spalding, Ph.D., is Director of the B. Kenneth Simon Center for American Studies at The Heritage Foundation.

This extract is taken from: <http://www.heritage.org/research/reports/2011/04/why-does-economic-freedom-matter>

Political And Economic Freedom - Two Sides Of The Same Coin

-Dr. Mark Cooray

The importance of the role played by economic freedom in the rise of western civilization cannot be over emphasized. One of the difficulties of assessing the importance of economic freedom is that it is inextricably connected to political freedom. Both from logical and historical standpoints, it appears that the two types of freedom represent the two sides of the same coin. The importance of political freedom is fundamentally linked to the conviction that an individual should be at liberty to pursue his or her own ends in a manner that he or she thinks fit. This is the essence of economic freedom. Conversely it is economic freedom which makes independent political action possible.

Political freedom, by which is meant rights such as the right to vote, the right of free association and the right to free expression, enables individuals to determine who their rulers shall be and how they shall be ruled. This freedom has been decisive in the rise of western civilization but it would have amounted to little except for the fact that it enabled society to be organized in such a fashion that individuals were left with the autonomy to pursue their own happiness. This freedom to seek self fulfillment generated the tremendous prosperity that we now enjoy. Milton Friedman says:

"The preservation of freedom is the protective reason for limiting and decentralizing governmental power. But there is also a constructive reason. The great advances of civilization, whether in architecture, or painting, in science or literature, in industry or agriculture, have never come from centralised government. Columbus did not set out to seek a new route to China in response to a majority directive of a parliament, though he was partly financed by an absolute monarch. Newton and Leibniz; Einstein and Bohr, Shakespeare, Milton and Pasternak; Whitney, McCormich, Edison and Ford; Jane Addams, Florence Nightingale and Albert Schwietzer; no one of these opened new frontiers of human knowledge and understanding, in literature, in technical possibilities, or in the relief of human misery, in response to governmental directives. Their achievements were the product of individual genius, of strongly held minority views, of a social climate permitting variety and diversity." (Milton Friedman, *Capitalism and Freedom*, Chicago (1962) pp 3-4).

What Friedman refers to is not the freedom or the privilege of electing leaders. He refers to the freedom to be left alone to pursue one's own ends for one's own motives. In the early history of liberalism, the value of political freedom was considered to be its ability to limit governmental power and to protect individual autonomy. In other words, political freedom was considered to be the means by which economic freedom was realized. It is ultimately economic freedom which inspired mankind to the achievements on which modern civilization is founded.

Today, regrettably, a very different view of political freedom is in vogue. It is taken to mean the power whereby we may compel governments to provide people with material benefits. Pressure groups - especially those having strong media backing may successfully influence governments to provide their constituents with material and other benefits at the expense of the rest of the community (the vast

majority). Political freedom is used to empower governments. What is happening is a surrender of individual autonomy to an authority which is incapable of satisfying the demands placed upon it.

The prosperity that western countries enjoy today is not the result of governmental action. Governments have succeeded in maintaining order and providing welfare for the needy and not so needy. The system can legitimately be asked to provide welfare for the genuinely needy. But the expansion of services and activities which governments have undertaken in modern times has occurred at enormous cost to economic freedom, which formerly served as the engine of advancement in science, in culture, and in material prosperity. By the misuse of political freedom, in making demands on governments, those economic freedoms which in the past helped in the conquest of poverty, ignorance and misery are being slowly undermined.

This extract is taken from: <http://www.ourcivilisation.com/cooray/btof/chap5i.htm>