

Economic Freedom
and

HUMAN
PROSPERITY



Economic
Freedom

Matters

Economic freedom may seem like a pale abstraction. Yet economics involves an essential part of our social life: our exchange of goods and services with others, including those we work with and those we buy from. Freedom in this social sphere means allowing everyone to make his or her own decisions, so long as those decisions do not threaten the lives, property and liberty of others.

Economic freedom brings energy and meaning to human life. Economic fetters, in turn, can hobble and cripple. The 2008 edition of "Economic Freedom of the World," an annual report published by Canada's Fraser Institute, found that the economically freest countries typically have not only wealthier and more dynamic economies, but also lower unemployment, greater political liberty, higher life expectancies and fewer children in the labor force.

Economic freedom can pose challenges, just as political freedom and civil freedom do, but whatever these challenges, freer markets clearly yield a host of benefits.

Free Markets and Market Economies

Economic freedom is usually honored in the breach. Even the freest economies, such as Hong Kong, Singapore, New Zealand, the United Kingdom, the United States and Ireland, impose numerous controls on individuals' decisions in the marketplace. Still, these market economies, though not quite free markets, demonstrate the power of even partially unfettered social cooperation and exchange.

Equality

Before the Law

The justice system in a free market must do more than punish extortion, theft and fraud. It must ensure that all people are treated equally when it comes to dispensing justice, so that the law protects, rather than curbs, people's economic freedom.

This principle involves not just the courts, but lawmakers as well. Government-granted monopolies and special licenses, whether to the East India Company in 18th century Britain or to the mortgage giant Fannie Mae in 21st century America, discriminate against potential competitors and protect bad business decisions at other people's expense.

Prohibitory regulations can also violate economic freedoms. For instance, a notorious 1869 Louisiana law ostensibly passed to protect people's health actually enshrined a monopoly that deprived low-income butchers of economic opportunity. This law was upheld in the U.S. Supreme Court's infamous Slaughter-House decision, which subsequently harmed blacks by empowering the South's "Jim Crow" laws and the "separate but equal" doctrine. The Slaughter-House ruling was even used to prevent women from practicing law in Illinois.

Private and Public Discrimination

A free market allows people to buy and hire freely, and some may decide to discriminate. But a market makes this discrimination expensive by reducing a bigot's buying, selling and hiring opportunities. In contrast, hundreds of excessive state and local regulations born of the Slaughter-House era deprive low-income workers — disproportionately minorities — of entry-level business opportunities to this day.

Easing Poverty

President John F. Kennedy once proposed an analogy for the way both the rich and poor can prosper in a growing economy, saying, “A rising tide lifts all boats.”

Admittedly, nothing is this simple — people can suffer in the best of times — but it’s true that the prosperity produced by economic freedom generally helps the poor. The world’s most economically free nations are not just wealthier overall: The poorest 10 percent of their populations make an average income about eight times that of the poorest 10 percent of the populations of the world’s least economically free countries. This disparity is a key reason poor immigrants flock to the United States.

Economic freedom works for impoverished countries, too. China, Vietnam, Peru and other poorer nations that have liberalized their economies in recent years are becoming wealthier. Zimbabwe, Myanmar and other poor nations that have repressed economic liberty have remained poverty-stricken.

Trade and Poverty in Wealthier Nations

Some have questioned the benefits of international trade for low-income workers in wealthier countries, since trade may subject them to new economic competition. But balancing this potential challenge are free-trade benefits like lower-priced goods, new exports and new jobs that are likely to benefit these workers in particular.



PEACE

History suggests there is no vaccine against war. The causes of war are as varied as human beings themselves. That said, international trade and economic freedom exert a subtle but relentless pressure for peace.

In a 2006 analysis of data concerning bilateral political interactions, professors Solomon W. Polachek and Carlos Seiglie concluded that a doubling of trade between two countries reduces their belligerent actions toward each other by 20 percent. This finding corresponds to economic logic. In a voluntary exchange, each side gets something it wants. Higher levels of such trade increase its value to both sides, raising the cost of losing it to conflict.

Other economic freedoms reinforce this dynamic. People with property that can be seized or destroyed in combat have an incentive to avoid the depredations of war. The general prosperity of economically free peoples also gives them one less reason to fight.

Fighting Protectionism

In a free-market society, protectionism would be prohibited as contrary to the nation's welfare. This would be no guarantee of peace, but it would prevent such recklessness as the Smoot-Hawley tariffs of 1930, which exacerbated the Great Depression in the United States and intensified the economic problems of Germany and Japan.

A decorative graphic on a magenta background. On the left, there are four vertical bars of varying heights and colors: a tall brown bar, a medium yellow bar, a slightly taller yellow bar, and a medium blue bar. On the right, there is a horizontal orange bar at the top edge.

Health



Economic freedom is good for human health. Statistics compiled in the 2008 “Economic Freedom of the World” report show that infant mortality rates in the world’s most economically free countries are less than one-tenth those in the least free countries. Life expectancy in the economically freest countries is about 35 percent — more than 20 years — longer.

Much of this difference is due to the freer economies’ better sanitation and abundance of food and labor-saving devices, but much is also due to superior medical care. The freest economies have produced most of the world’s recent advances in pharmaceuticals and medical technology.

Some of the economically freer countries, such as Canada and the United Kingdom, nevertheless have government-controlled health care systems. Patients there can wait months for a common diagnostic procedure like an MRI. Other market economies, such as Switzerland, Germany and the Netherlands, force everyone to buy health insurance, but avoid waiting lists by allowing some market competition among private insurers and medical care providers.

The Free - and Unfree - U.S. Health Care Market

The U.S. health care system has been freer than most, and advanced medical procedures are broadly available here. Nevertheless, extensive government subsidies, de facto price controls and constraints on insurers and service providers inflate health care costs and decrease service quality — an inversion of the lower prices and better service typical of a free market.

ENVIRONMENTAL

Quality

Free markets are sometimes seen as antagonistic to environmental quality. This view is not only mistaken, but also bad for the environment.

In the wasteful centralized economies of the former Soviet bloc, property was not privately owned, so no one had an immediate personal interest in defending it from harmful pollution. Considerable environmental damage was the result, epitomized by the devastation of the Aral Sea. The world's remaining centralized economies do less harm only to the extent that they are small and poor — and poverty is a hazardous environment for human beings.

In contrast, market economies reduce most air and water emissions once they reach a modest level of wealth. As Swedish intellectual Johan Norberg writes in his book "In Defense of Global Capitalism": "A country that is very poor is too preoccupied with lifting itself out of poverty to bother about the environment at all. Countries usually begin protecting their natural resources when they can afford to do so."

Profit, Ecology and Law

The environmental challenge in market economies is using tort law and other market mechanisms to curb cumulative emissions that violate others' economic rights. Regardless, free markets encourage basic environmental care. Depleted forests and lakes are a long-run financial loss to their owners, while air and water emissions represent a waste of resources that affect a manufacturer's bottom line. In a free market, the profit motive rewards care and conservation of resources.

More Freedom

Students for a Free Economy is a nonpartisan educational organization dedicated to promoting the benefits of free markets, civil society and individual liberty. SFE is establishing a presence at colleges and universities, providing resources and materials, developing future leaders in the free-market movement, and acting as a network for students to connect with like-minded peers, faculty, mentors and entrepreneurs who share their passion for a free economy and society.

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Some countries, such as Singapore, are relatively free economically, but have fewer civil and political freedoms. These countries are not typical, a point highlighted in a 1998 study by W. Ken Farr, Richard A. Lord and J. Larry Wolfenbarger and in a 1999 study by Wenbo Wu and Otto A. Davis. Both groups' analyses of international data indicated that economic liberty provides people with a wealth that becomes the basis for greater political freedom.

Can economic freedom really promote other freedoms? It already has. Apartheid in South Africa began to crumble when black workers achieved the economic power to stage powerful bus boycotts. Similarly, the 1989 Tiananmen Square protests for civil and political liberty followed China's economic liberalization and growth. Although the demonstrations were crushed, freedom of speech in China has grown. The People's University in Beijing has even hosted a lecture on public policy by Lawrence W. Reed, president emeritus of the free-market Mackinac Center for Public Policy.

The Promise of Economic Liberty

Far from being a pale abstraction, economic freedom is a powerful engine of social growth. But while many champion the cause of political and civil liberty, relatively few defend a freedom that grants people a better chance to flourish and pursue their dreams. The time has come to fight for freedom in all its forms.

Economic Freedom Is Fundamental

The poorest man may in his cottage bid defiance to all the force of the Crown. It may be frail; its roof may shake; the wind may blow through it; the storms may enter, the rain may enter, — but the King of England cannot enter; all his forces dare not cross the threshold of the ruined tenement!

— *William Pitt, 1st Earl of Chatham, in a speech delivered in 1763
in opposition to an excise tax on perry and cider*

All the citizens of a state cannot be equally powerful, but they may be equally free.
— *Voltaire*

Men pay most attention to what is their own; they care less for what is common.
— *Aristotle*

Peace is the natural effect of trade.
— *Baron de Montesquieu*



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