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The Entrepreneur

The Belden Center for Private Enterprise Education
Harding University School of Business
Searcy, Arkansas

This issue courtesy of Mr. Steve Phillips, Phillips Lumber Co., Inc., Cedar Hill, Texas

The Economics and Philosophy of Liberty

TUCKER ESSAY WINS INTERNATIONAL AWARD

David Tucker, Assistant Professor of Economics at Harding University, recently received notification from the Mont Pelerin Society that his essay entitled "The Economics and Philosophy of Liberty" was unanimously selected second prize winner in the Olive W. Garvey Fellowship Essay Contest.

The award for the essay included a \$1,500 cash grant plus a \$1,000 travel grant to present the paper to the September 4, 1986, general meeting of the Mont Pelerin Society in St. Vincent, Italy. The Mont Pelerin Society, which sponsored the Garvey essay contest, is an international group of scholars and others who believe in the free society. It was founded by Friedrich von Hayek, Nobel Laureate in Economics, at Mont Pelerin, Switzerland in 1947.

The essay by Tucker was judged by an international panel of three judges — one each from Europe, America, and Latin America. Tucker's essay emphasized three systems which must support liberty in society for a free society to function — the economic system, the political system, and the moral-cultural system.

Dr. Don Diffine, director of the economics program provided this perspective, "This singular honor for David Tucker is a wonderful reminder of the bright and shining example he is for those who would seek a better understanding of the idea of freedom applied to the marketplace. There may be no free lunch in our economic lives, but this prestigious award for David is certainly the dessert. I salute my dear friend and worthy colleague."

Tucker is married to the former Renee East and they have two children, Peyton and Kinsey. He has taught at Harding for four years and is also Director of the Walton Scholarship Program for Central American students. Tucker is currently developing a new course on "Free Enterprise Economics for Developing Nations."

by

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Presented at the 1986 General Meeting
of the MONT PELERIN SOCIETY
Saint Vincent, Italy

Words are precious things. Their use and meanings are often jealousy guarded by those who possess the currently accepted definition. Firms often spend a great deal of time and effort to promote and protect a copyright or trademark on a certain word or phrase. And corporations are not alone in their quest to become associated with certain words. Often-times individuals and groups will commandeer words or change the meaning of a word in order to gain acceptance and approval or to persuade others to join their cause.

For example, Thomas Sowell recently noted that a "demonstration" is a riot by people you agree with, while "mob violence" is a riot by people you disagree with; or, the current definition of "compassion" is the use of tax money to buy votes, while "insensitivity" is now defined as the objection to the use of tax money to buy votes.¹ In one of his books Milton Friedman refused to surrender the word "liberal" to those currently advocating reliance on government to achieve desired objectives. Dr. Friedman advocated a return to the eighteenth century use of the word where a liberal was an advocate of *laissez faire*, free trade and representative government.²

This essay is concerned with words and the definition of words. What do the words liberty and equality really mean? Must compassion and insensitivity be relegated to the use of government expenditures? The answers to these questions are the beginning of this discussion of the economics and philosophy of liberty.

The beginning of each new semester or the beginning of each new class of students should generate a great deal of excitement on the part of a university professor. For university professors are charged with an awesome responsibility: To train the minds of young people to think clearly. But in

order to think clearly and in order to communicate clearly a professor must first temper his or her excitement with a new beginning in order to obtain assurance that each new student understands the meanings of the words which will be used in specific ways during the course of the class. Rather than immediately delving into the more exciting (and advanced) concepts of the class, the professor must first tend to the dull details of defining the terms. Defining terms is especially needed when referring to the ideas of liberty.

Two words which are used quite often as synonyms for liberty are "freedom" and "equality." These are good synonyms for liberty, but free and equal must also be properly defined, and one must be especially careful in these definitions for opponents of liberty have often co-opted these words for themselves and assigned to them meanings which cannot be true.

Harry V. Jaffa once pointed out that the men who founded the United States understood the words "free" and "equal" to mean exactly the same thing.³ If people are free, then they are equal. But consider this idea in more detail. What is implicitly being said here is that freedom is freedom of opportunity and equality is equality of opportunity. Free and equal cannot be synonymous if one considers equality to be equality of end result. For if by equality one means equality of end result, then there is not freedom for everyone. In order to obtain equality of end result those who have more talent and ability must be limited in their freedom to use their talent so that those with less talent may end up in the same position as those blessed with greater ability.

Richard L. Evans has suggested it is good that none of those who believe in equality of result are forest rangers. Even though all the trees in the forest have fundamentally the same rights and privileges, they do "not all grow to the same height. It would be preposterous to ruthlessly pull up the short trees to the height of the tall ones. If we did, it would mean their uprooting — they would wither and die, as all things do unless they grow up by themselves from their own roots."⁴

Therefore, to use the word equality as a synonym for liberty and freedom one must understand that equality does not mean everyone is identical. Real differences exist in talent, ability, aspirations and application. Equality means that people are equal in the sight of God and the law. Each individual should be regarded as an end in and of himself or herself. No arbitrary obstacles should be set up by men or by government to impede the freedom of an individual to fully utilize his or her talents.

The definition of liberty as freedom of opportunity and choice and equality before God and the law brings us to the next level of discussion of the economics and philosophy of liberty. The next level is an investigation of what is required to bring about a maximum level of liberty to society.

The road which must be traveled to find a society with a maximum amount of liberty is not an easy one. Not only is the lover of liberty impeded by those who consciously wish to equate liberty with equality of end result, but there are others who, not fully understanding the consequences of their actions, try to "improve" society by increasing safety or welfare at the expense of freedom. Alex de Tocqueville

warned of these in his book **Democracy in America** when he stated "There is . . . a manly and lawful passion for equality which incites men to wish all to be powerful and honored.

This passion tends to elevate the humble to the rank of the great; but there exists also in the human heart a depraved taste for equality, which impels the weak to attempt to lower the powerful to their level, and reduces men to prefer equality in slavery to inequality with freedom."⁵ A more recent author, George Gilder, warns of the same type of problem when he stated, "I believe that self-interest leads us by an invisible hand to an ever growing welfare state, as people pursue comfort and security as their chief interests and abandon the long term goals that always depend on faith in God and faith in the future to fulfill."⁶

The point of the above quotes is to show that obtaining liberty and maintaining liberty is not something that happens naturally. It must be a conscious choice of a nation's leadership. Liberty is a very rare and precious commodity. It has opponents that are both overt in the opposition and those who are more subtle in their destruction of liberty. So the question returns: What institutions or systems must be in place in order for society to obtain a maximum amount of liberty?

In a recent book entitled, **The Spirit of Democratic Capitalism**, Michael Novak advanced the thesis that a free society, dedicated to liberty, is the result of three separate systems of support. The three systems complement each other and each is necessary for the maintenance of liberty. The loss or absence of any one of the three systems will eventually cause the diminution of liberty in a society. The three systems as articulated by Novak are: the economic system, the political system and the moral-cultural system.

A society dedicated to liberty must create an economy dedicated to liberty. While economic liberty goes a long way toward a society of liberty, economic liberty cannot truly thrive without a political system based on liberty and a moral-cultural system that values the virtues of honesty, integrity and discipline, to name a few.

The basic problem to be solved by economic science is scarcity. Resources are scarce while the aggregate of individual wants and needs are practically limitless. How then, will a society distribute its scarcity; and, more importantly, how will this be done in a society dedicated to liberty?

A fundamental pillar in the economy of liberty is the right of the individual to the ownership, use and free disposition of private property. One of the most basic differences between a free economy and a socialistic economy is this issue of private property. Adam Smith first noted the voluntary exchange of private property constituted a "natural system of liberty" which was advantageous to the greatest number of people in a society.

The issue of the definition of private property rights is a difficult one in many societies. Tom Bethell recently pointed out that private property rights are a key issue in the economic development of Third World countries.⁷ It is difficult (if not impossible) to promote growth in an underdeveloped country when property rights are subject to the whim of a dictator or a corrupt judiciary. In fact, another way of thinking about economic growth is the creation of new private pro-

erty, and if private property is confiscated by a dictator's whim or excessive taxation, then there is no incentive for growth and there is economic stagnation.

The issue of property rights is so fundamental in the society of liberty that it touches each of the three systems under discussion. Not only are well defined property rights essential to a free economy, but the process of definition is the role of the political system. As stated earlier, if the current politicians in power do not respect property rights then liberty cannot be present. Additionally, respect for the property of others should be ingrained in society as a part of the moral-cultural system. Indeed, respect for property of others leads to a general respect for the lives of others. If a dictator can take a person's property at a whim, it is not much harder to take a person's life at a whim. As Carl Anderson and William Gribbin once noted, "if a person's property is not disposable, by majority vote or otherwise, then how much more sacrosanct is the individual himself."⁸

While the issue of private property is fundamental to the free enterprise system, a discussion of the necessity of private ownership of resources is not a complete description of the economy of liberty. In the economy of liberty, no exchange of private property, no economic transaction, takes place unless both parties to the transaction expect to benefit from the exchange. In other words, if people are free, and if they are allowed to own private property, then private property will be exchanged only if there is mutual benefit, otherwise one part would object to the exchange and it would not take place. This system of voluntary exchange of private property is the heart of the economy of liberty. It is the building block upon which markets are built. Supply and demand schedules come into equilibrium where the two sides mutually agree upon an exchange of property.

Perhaps one of the most persistent criticisms of the free market is with regard to the individual motivations of the two parties which participated in the voluntary exchange. Adam Smith noted that the two parties usually do not exchange their property for love or benevolence; no, they rather exchange because the exchange is in the "self-interest" of each. This self-interest motive of the individual (or the profit motive of the firm) has been subjected to more criticism than a basketball coach with a 0-12 record. How can a society be built on greed and avarice? How can "good" come from a motive of lust of money?

The answer to these critics is that they misunderstood the use of the term "self-interest." Self-interest as used by Adam Smith, and as used in the economy of liberty is not a narrow-minded, hell-bent, all-out grab for money. Self-interest includes all factors which motivate an individual. These factors include money, but they also include leisure, family, neighborhood, and country. Additionally, the critics seem to not understand that a key to success is not a one time fleecing of the stupid, but a sincere servicing of the customer. George Gilder stated this point quite eloquently,

This idea that capitalism (self-interest, narrowly defined) is somehow a Faustian pact we make with the devil, in which we achieve economic growth by exploiting greed and avarice, is profoundly misconceived and cannot work. The way capitalism works is by inducing people to fulfill the needs of others in imaginative ways.⁹

And Gilder is correct. Especially in his emphasis on the way in which liberty allows one to use imagination. It is when imagination is given liberty that progress results. John Locke once wrote that the invention of quinine probably helped more people than charity.¹⁰ More recently Joseph Sobran captured this idea when he wryly remarked that the inventor who makes soap from peanuts does more for progress than a revolutionary with a bayonet.

The principles, then, of the economics of liberty are really quite simple. When people are free to exchange private property, the imagination of individuals is unleashed and progress results. The lot of the ordinary citizen is improved. As Schumpeter put it, "The factory girls get silk stockings."¹²

But as important as economic liberty is, it cannot stand alone. There are two other systems which are essential to a society of liberty: the political system and the moral-cultural system.

It is impossible for a free society to exist without government. Yet, government is also the greatest danger and threat to liberty. The reason for this danger is simple and can be summarized by Woodrow Wilson's statement that, "government, in the last analysis, is organized force." If one does not care to trade with the person running the corner grocery store, one merely has to trade at the next corner. But if one does not care to deal with the government, one can only move to another country, start a revolution, or in democratic countries, work for the opposing political party. None of these options provide as quick and easy a solution to the problem as trading with the next corner grocer.

Milton and Rose Friedman, in their book **Capitalism and Freedom**, lay down two principles which should guide the political system in the society of liberty. The first principle is that the scope of government must be limited. The functions of government should be limited to the protection of the citizenry from threats both external (foreign invasion) and internal (violence by one citizen against another or another's property).

Also, it is the role of government to settle disputes, enforce contracts and promote economic competition. When Adam Smith listed the proper functions of government he also included certain public works which private enterprise may not have a propensity to produce. Friedman acknowledges these works as well but warns that cost-benefit analysis should be thoroughly done before the project is started, and, by all means, the benefits should solidly outweigh the costs.

Another point should be considered under this idea of the scope of government being limited. It is necessary for government to be the body which defines and enforces private property rights, an essential element of the economy of liberty. It is essential that the law used to define such rights be applied evenly and without prejudice. For if a political system does not treat its citizens impartially in the eyes of the law, then society crumbles into a system of graft and favoritism. In a system of corrupt government, people do not have equality of opportunity and, as was noted earlier, equality of opportunity is synonymous with freedom and liberty. Joseph Sobran summarized this point.

The genuine rule of law treats people alike, impartially. That is all the protection the weak, however defined, can rightly ask. Majority rule can easily degenerate, as it has done, into another form of the rule of the strong.¹³

The second principle noted by the Friedman's which should be used in defining the proper role of government in a free society is that the power of government must be dispersed.¹⁴ Whatever needs to be done by government, it is usually best to do it at the lowest level of government. A strong national government removes power from local authorities to a far removed capitol. Decisions that make sense in London do not always work well in Liverpool. Policies that apply quite well in Washington and New York do not always make sense in Arkansas.

The concentration of power in the hands of a national government or in the hands of a dictator will inevitably mean a diminution of liberty. There are several aspects to this point. One aspect can be seen by recent events in the Philippines. The concentration of power in the hands of a single dictator causes corruption and graft on an apparently vast scale. Another aspect is more subtle and even ironic. Should power be concentrated in a freely elected central government, liberty will still suffer. For central governments who are freely elected and assumedly sincere in their desire to help people are forced to design programs which treat all citizens or groups of citizens alike. For if they did not, they would be open to familiar charges of favoritism.

But people are not alike. They have different wants, needs, talents and aspirations. However, if people are forced to participate in economic programs run by government, they are forced into pigeonholes, never to be allowed the freedom to imagine. Political systems which run economic systems retard freedom and, to quote Joseph Sobran once more, "Everything is frozen at a certain level, no higher than the imaginations of the ruling mediocrities."¹⁵

The society dedicated to liberty requires a certain economic system and a certain political system. The Friedmans note that a free economic system is a necessary condition to political freedom.¹⁶ Michael Novak expressed the point more bluntly when he stated,

While bastard forms of capitalism do seem able for a time to endure without democracy, the natural logic of capitalism leads to democracy . . . For economic liberties without political liberties are inherently unstable.¹⁷

So the two systems — economic liberty and political liberty — are complementary. But they still require a third system in order to create a society dedicated to liberty. This third system is referred to by Novak as the moral-cultural system, and evidence of the necessity of this system can be found in writings down through the ages. Some samples:

...to suppose that any form of government will secure liberty or happiness without any virtue in the people, is a chimerical idea.¹⁸

— James Madison

...liberty cannot be established without morality, nor morality without faith."¹⁹

— Alex de Tocqueville

... freedom has never worked without deeply ingrained moral beliefs that coercion can be reduced to a minimum only where individuals can be expected as a rule to conform voluntarily to certain [moral] principles.²⁰

— Friedrich Hayek

All the great champions of liberty have emphasized the existence of a commonly accepted moral code as a necessary condition for a free society.²¹

— Allan Carlson

And, finally, a quote from Michael Novak which pulls together the necessity of all three systems — economic, political and moral-cultural — in order to create and maintain a society dedicated to liberty.

Not only do the logic of democracy and the logic of the market economy strengthen one another. Both also require a special moral-cultural base. Without certain moral and cultural presuppositions about the nature of individuals and their communities, about liberty and sin, about the changeability of history, about work and savings, about self-restraint and mutual cooperation, neither democracy nor capitalism can be made to work.²²

But what exactly is a moral-cultural system, and why is it necessary to the society of liberty?

The moral-cultural system is the generally accepted framework of morals, values and institutions within which a society operates. These values need not be accepted by each and every citizen, but they must be accepted by the vast majority. In the United States these values come from the Judeo-Christian tradition. In Japan, they do not. The point is, there must be some set of values which are generally agreed upon.

The importance of the existence of a moral-cultural system comes from the very liberties which are granted by the economic and political systems described earlier. In these two systems individuals are given responsibility for their well-being, but they are given as much freedom as possible in their search for well-being in their daily lives. Since people are granted freedom, they have the freedom to be diligent or lazy; honest or dishonest; chaste or pornographic; kind or mean. Which of the above short list of comparisons is best suited to the growth of society? Obviously, the good virtues which are taught by the Judeo-Christian tradition.

In granting liberty to people, they are granted the liberty to be jerks if they so choose. And while "jerk" is not a very precise or scholarly term, perhaps it communicates the point. A society filled with free people who use their freedom to engage in negative behavior will not long endure. It is only if the vast majority of husbands and wives in a free society choose to be chaste and dedicated to their families that freedom will thrive. Another way of putting the point is that

with great liberty comes great responsibility, and it is the role of the moral-cultural system to create a sense of responsibility in the society of liberty.

If just a few husbands choose to use their liberty to abandon their wives and children and leave them homeless and without support, then charitable organizations can cope with a few, and the courts can enforce responsibility upon the occasional negligent husband father. However, if the vast majority of husbands and fathers choose to abandon their wives and children, society cannot cope and liberties will be lost for all.

The examples of husband, wife, children and family are used deliberately in the above paragraph for the moral-cultural system relies most heavily on the family as the building block of society. It is the place where values are learned. Allan Carlson notes that during the time Adam Smith was writing there was no need to emphasize that the family is the basic building block of society since that was just understood by Smith's readers. Milton and Rose Friedman note that, "The ultimate operative unit in our society is the family, not the individual."²³

Adam Smith was able to assume that self-interest

was largely a concern for family. But if people are no longer primarily concerned for family then perhaps collectivist criticism of the motive can bear weight. If individuals are truly only concerned for themselves and they have no moral base, then society is truly being built on greed and avarice, and perhaps liberties will indeed crumble as each person looks out only for himself and his own narrow, selfish self-interest. Again, let Michael Novak summarize,

Democratic capitalism is not a "free enterprise" system alone. It cannot thrive apart from the moral culture that nourishes the virtues and values upon which its existence depends. It cannot thrive apart from a democratic policy committed, on the one hand, to limited government and, on the other hand, to many legitimate activities without a prosperous economy is possible.²⁴

The presence of liberty in society is a rare flower, to be cultivated with care. But to cultivate it properly, one must know of the food and water that brings it life. A society of liberty cannot emerge, survive and thrive without an economy of liberty, a political system dedicated to liberty, and a moral-cultural system which understands liberty and responsibility.

ENDNOTES

¹Thomas Sowell, "An English Primer," *National Review*, December 31, 1985, p. 17.

²Milton and Rose Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962), pp. 5-6.

³This idea is attributed to Harry Jaffa by Joseph Sobran in, "Pensees: Notes for the Reactionary of Tomorrow," *National Review*, December 31, 1985, p. 28.

⁴Richard L. Evans, "Liberty," *Essays on Liberty, Volume II*, (Irvington-on-the-Hudson, N.Y.: The Foundation of Economic Education, 1954), pp. 77-78.

⁵Alexis de Tocqueville, *Democracy in America*, 2 vols., 2nd ed., trans. Henry Reeve, ed. Francis Bowen (Boston: John Alyn, Publisher, 1863), Vol. I, pp. 67-68.

⁶George Gilder, "The Family and Our Economic Future," in *The Wealth of Families*, Carl Anderson and William Gribbin, eds., (Washington, D.C., The American Family Institute, 1982), p. 30.

⁷Tom Bethell, "How to Start a Revolution without Really Trying," *National Review*, p. 40.

⁸Carl Anderson and William Gribbin, "The Family and American Economic Policy," in *The Wealth of Families*, Carl Anderson and William Gribbin, eds. (Washington, D.C., The American Family Institute, 1982), p. 24.

⁹Gilder, "The Family and Our Economic Future," p. 33.

¹⁰John Locke, *An Essay in Human Understanding*, 2 vols. (New York: Dover, 1959), II: 352.

¹¹Joseph Sobran, "Pensees," p. 25.

¹²Joseph Schumpeter, *Capitalism, Socialism and Democracy*, 3rd ed., (New York: Harper & Row, 1975), p. 67.

¹³Sobran, p. 29.

¹⁴Friedman, p. 3.

¹⁵Sobran, p. 25.

¹⁶Friedman, p. 9.

¹⁷Michael Novak, *The Spirit of Democratic Capitalism*, (New York: American Enterprise Institute/Simon and Schuster, 1982), p. 15.

¹⁸Johnathan Elliot, editor, *The Debates in the Several State Conventions, on the Adoption of the Federal Constitution, as Recommended by the General Convention at Philadelphia, in 1787, Vol. III* (Philadelphia: J. B. Lippincourt, 1863), p. 537.

¹⁹Alexis de Tocqueville, *Democracy in America*, Vol. II (New York: Schocken Books, 1961), pp. 243-50.

²⁰Friedrich Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), p. 62.

²¹Allan Carlson, "The Family and Free Enterprise," in *The Wealth of Families*, p. 39.

²²Novak, p. 16.

²³Friedman, p. 33.

²⁴Novak, p. 56.