

# The Economic Foundations of Freedom

Animals are driven by instinctive urges. They yield to the impulse which prevails at the moment and peremptorily asks for satisfaction. They are the puppets of their appetites.

Man's eminence is to be seen in the fact that he chooses between alternatives. He regulates his behavior deliberately. He can master his impulses and desires; he has the power to suppress wishes the satisfaction of which would force him to renounce the attainment of more important goals. In short: man acts; he purposively aims at ends chosen. This is what we have in mind in stating that man is a moral person, responsible for his conduct.

## Freedom as a Postulate of Morality

All the teachings and precepts of ethics, whether based upon a religious creed or whether based upon a secular doctrine like that of the Stoic philosophers, presuppose this moral autonomy of the individual and therefore appeal to the individual's conscience. They presuppose that the individual is free to choose among various modes of conduct and require him to behave in compliance with definite rules, the rules of morality. Do the right things, shun the bad things.

It is obvious that the exhortations and admonishments of morality make sense only when addressing individuals who are free agents. They are vain when directed to slaves. It is useless to tell a bondsman what is morally good and what is morally bad. He is not free to determine his comportment; he is forced to obey the orders of his master. It is difficult to blame him if he prefers yielding to the commands of his master to

the most cruel punishment threatening not only him but also the members of his family.

This is why freedom is not only a political postulate, but no less a postulate of every religious or secular morality.

### The Struggle for Freedom

Yet for thousands of years a considerable part of mankind was either entirely or at least in many regards deprived of the faculty to choose between what is right and what is wrong. In the status society of days gone by the freedom to act according to their own choice was, for the lower strata of society, the great majority of the population, seriously restricted by a rigid system of controls. An outspoken formulation of this principle was the statute of the Holy Roman Empire that conferred upon the princes and counts of the Reich (Empire) the power and the right to determine the religious allegiance of their subjects.

The Orientals meekly acquiesced in this state of affairs. But the Christian peoples of Europe and their scions that settled in overseas territories never tired in their struggle for liberty. Step by step they abolished all status and caste privileges and disabilities until they finally succeeded in establishing the system that the harbingers of totalitarianism try to smear by calling it the bourgeois system.

### The Supremacy of the Consumers

The economic foundation of this bourgeois system is the market economy in which the consumer is sovereign. The consumer, i.e., everybody, determines by his buying or abstention from buying what should be produced, in what quantity and of what quality. The businessmen are forced by the instrumentality of profit and loss to obey the orders of the consumers. Only those enterprises can flourish that supply in the best possible and cheapest way those commodities and services which the buyers are most anxious to acquire. Those who fail to satisfy the public suffer losses and are finally forced to go out of business.

In the precapitalistic ages the rich were the owners of large landed estates. They or their ancestors had acquired their property as gifts—feuds or fiefs—from the sovereign who—with their aid—had conquered the country and subjugated its inhabitants. These aristocratic

landowners were real lords as they did not depend on the patronage of buyers. But the rich of a capitalistic industrial society are subject to the supremacy of the market. They acquire their wealth by serving the consumers better than other people do and they forfeit their wealth when other people satisfy the wishes of the consumers better or cheaper than they do. In the free market economy the owners of capital are forced to invest it in those lines in which it best serves the public. Thus ownership of capital goods is continually shifted into the hands of those who have best succeeded in serving the consumers. In the market economy private property is in this sense a public service imposing upon the owners the responsibility of employing it in the best interests of the sovereign consumers. This is what economists mean when they call the market economy a democracy in which every penny gives a right to vote.

### The Political Aspects of Freedom

Representative government is the political corollary of the market economy. The same spiritual movement that created modern capitalism substituted elected officeholders for the authoritarian rule of absolute kings and hereditary aristocracies. It was this much-decried bourgeois liberalism that brought freedom of conscience, of thought, of speech, and of the press and put an end to the intolerant persecution of dissenters.

A free country is one in which every citizen is free to fashion his life according to his own plans. He is free to compete on the market for the most desirable jobs and on the political scene for the highest offices. He does not depend more on other people's favor than these others depend on his favor. If he wants to succeed on the market, he has to satisfy the consumers; if he wants to succeed in public affairs he has to satisfy the voters. This system has brought to the capitalistic countries of Western Europe, America, and Australia an unprecedented increase in population figures and the highest standard of living ever known in history. The much talked-about common man has at his disposal amenities of which the richest men in precapitalistic ages did not even dream. He is in a position to enjoy the spiritual and intellectual achievements of science, poetry, and art that in earlier days were accessible only to a small elite of well-to-do people. And he is free to worship as his conscience tells him.

## The Socialist Misrepresentation of the Market Economy

All the facts about the operation of the capitalistic system are misrepresented and distorted by the politicians and writers who arrogated to themselves the label of liberalism, the school of thought that in the nineteenth century crushed the arbitrary rule of monarchs and aristocrats and paved the way for free trade and enterprise. As these advocates of a return to despotism see it, all the evils that plague mankind are due to sinister machinations on the part of big business. What is needed to bring about wealth and happiness for all decent people is to put the corporations under strict government control. They admit, although only obliquely, that this means the adoption of socialism, the system of the Union of Soviet Socialist Republics. But they protest that socialism will be something entirely different in the countries of Western civilization from what it is in Russia. And anyway, they say, there is no other method to deprive the mammoth corporations of the enormous power they have acquired and to prevent them from further damaging the interests of the people.

Against all this fanatical propaganda there is need to emphasize again and again the truth that it is big business that brought about the unprecedented improvement of the masses' standard of living. Luxury goods for a comparatively small number of well-to-do can be produced by small-size enterprises. But the fundamental principle of capitalism is to produce for the satisfaction of the wants of the many. The same people who are employed by the big corporations are the main consumers of the goods turned out. If you look around in the household of an average American wage-earner, you will see for whom the wheels of the machines are turning. It is big business that makes all the achievements of modern technology accessible to the common man. Everybody is benefited by the high productivity of big scale production.

It is silly to speak of the "power" of big business. The very mark of capitalism is that supreme power in all economic matters is vested in the consumers. All big enterprises grew from modest beginnings into bigness because the patronage of the consumers made them grow. It would be impossible for small- or medium-size firms to turn out those products which no present-day American would like to do without. The bigger a corporation is, the more does it depend on the consumers' readiness to buy its wares. It was the wishes — or, as some say, the folly — of the consumers that drove the automobile industry into the production of ever

bigger cars and forces it today to manufacture smaller cars. Chain stores and department stores are under the necessity to adjust their operations daily anew to the satisfaction of the changing wants of their customers. The fundamental law of the market is: the customer is always right.

A man who criticizes the conduct of business affairs and pretends to know better methods for the provision of the consumers is just an idle babbler. If he thinks that his own designs are better, why does he not try them himself? There are in this country always capitalists in search of a profitable investment of their funds who are ready to provide the capital required for any reasonable innovations. The public is always eager to buy what is better or cheaper or better and cheaper. What counts in the market is not fantastic reveries, but doing. It was not talking that made the “tycoons” rich, but service to the customers.

### Capital Accumulation Benefits All of the People

It is fashionable nowadays to pass over in silence the fact that all economic betterment depends on saving and the accumulation of capital. None of the marvelous achievements of science and technology could have been practically utilized if the capital required had not previously been made available. What prevents the economically backward nations from taking full advantage of all the Western methods of production and thereby keeps their masses poor is not unfamiliarity with the teachings of technology but the insufficiency of their capital. One badly misjudges the problems facing the underdeveloped countries if one asserts that what they lack is technical knowledge, the “know-how.” Their businessmen and their engineers, most of them graduates of the best schools of Europe and America, are well acquainted with the state of contemporary applied science. What ties their hands is a shortage of capital.

A hundred years ago America was even poorer than these backward nations. What made the United States become the most affluent country of the world was the fact that the “rugged individualism” of the years before the New Deal did not place too serious obstacles in the way of enterprising men. Businessmen became rich because they consumed only a small part of their profits and plowed the much greater part back into their businesses. Thus they enriched themselves and all of the people. For it was this accumulation of capital that raised the marginal productivity of labor and thereby wage rates.

Under capitalism the acquisitiveness of the individual businessman benefits not only himself but also all other people. There is a reciprocal relation between his acquiring wealth by serving the consumers and accumulating capital and the improvement of the standard of living of the wage-earners who form the majority of the consumers. The masses are in their capacity both as wage-earners and as consumers interested in the flowering of business. This is what the old liberals had in mind when they declared that in the market economy there prevails a harmony of the true interests of all groups of the population.

### Economic Well-Being Threatened by Statism

It is in the moral and mental atmosphere of this capitalistic system that the American citizen lives and works. There are still in some parts of the United States conditions left which appear highly unsatisfactory to the prosperous inhabitants of the advanced districts which form the greater part of the country. But the rapid progress of industrialization would have long since wiped out these pockets of backwardness if the unfortunate policies of the New Deal had not slowed down the accumulation of capital, the irreplaceable tool of economic betterment. Used to the conditions of a capitalistic environment, the average American takes it for granted that every year business makes something new and better accessible to him. Looking backward upon the years of his own life, he realizes that many implements that were totally unknown in the days of his youth and many others which at that time could be enjoyed only by a small minority are now standard equipment of almost every household. He is fully confident that this trend will prevail also in the future. He simply calls it the “American way of life” and does not give serious thought to the question of what made this continuous improvement in the supply of material goods possible. He is not earnestly disturbed by the operation of factors that are bound not only to stop further accumulation of capital but may very soon bring about capital decumulation. He does not oppose the forces that—by frivolously increasing public expenditure, by cutting down capital accumulation, and even making for consumption of parts of the capital invested in business, and, finally, by inflation—are sapping the very foundations of his material well-being. He is not concerned about the growth of statism that wherever it has been tried resulted in producing and preserving conditions which in his eyes are shockingly wretched.

## No Personal Freedom Without Economic Freedom

Unfortunately many of our contemporaries fail to realize what a radical change in the moral conditions of man, the rise of statism, the substitution of government omnipotence for the market economy, is bound to bring about. They are deluded by the idea that there prevails a clear-cut dualism in the affairs of man, that there is on the one side a sphere of economic activities and on the other side a field of activities that are considered as noneconomic. Between these two fields there is, they think, no close connection. The freedom that socialism abolishes is “only” the economic freedom, while freedom in all other matters remains unimpaired.

However, these two spheres are not independent of each other as this doctrine assumes. Human beings do not float in ethereal regions. Everything that a man does must necessarily in some way or other affect the economic or material sphere and requires his power to interfere with this sphere. In order to subsist, he must toil and have the opportunity to deal with some material tangible goods.

The confusion manifests itself in the popular idea that what is going on in the market refers merely to the economic side of human life and action. But in fact the prices of the market reflect not only “material concerns” — like getting food, shelter, and other amenities — but no less those concerns which are commonly called spiritual or higher or nobler. The observance or nonobservance of religious commandments — to abstain from certain activities altogether or on specific days, to assist those in need, to build and to maintain houses of worship, and many others — is one of the factors that determines the supply of, and the demand for, various consumers’ goods and thereby prices and the conduct of business. The freedom that the market economy grants to the individual is not merely “economic” as distinguished from some other kind of freedom. It implies the freedom to determine also all those issues which are considered as moral, spiritual, and intellectual.

In exclusively controlling all the factors of production the socialist regime controls also every individual’s whole life. The government assigns to everybody a definite job. It determines what books and papers ought to be printed and read, who should enjoy the opportunity to embark on writing, who should be entitled to use public assembly halls, to broadcast and to use all other communication facilities. This means that those in charge of the supreme conduct of government affairs

ultimately determine which ideas, teachings, and doctrines can be propagated and which not. Whatever a written and promulgated constitution may say about the freedom of conscience, thought, speech, and the press and about neutrality in religious matters must in a socialist country remain a dead letter if the government does not provide the material means for the exercise of these rights. He who monopolizes all media of communication has full power to keep a tight hand on the individuals' minds and souls.

What makes many people blind to the essential features of any socialist or totalitarian system is the illusion that this system will be operated precisely in the way which they themselves consider as desirable. In supporting socialism, they take it for granted that the "state" will always do what they themselves want it to do. They call only that brand of totalitarianism "true," "real," or "good" socialism the rulers of which comply with their own ideas. All other brands they decry as counterfeit. What they first of all expect from the dictator is that he will suppress all those ideas of which they themselves disapprove. In fact, all these supporters of socialism are, unbeknown to themselves, obsessed by the dictatorial or authoritarian complex. They want all opinions and plans with which they disagree to be crushed by violent action on the part of the government.

### The Meaning of the Effective Right to Dissent

The various groups that are advocating socialism, no matter whether they call themselves communists, socialists, or merely social reformers, agree in their essential economic program. They all want to substitute state control — or, as some of them prefer to call it, social control — of production activities for the market economy with its supremacy of the individual consumers. What separates them from one another are not issues of economic management, but religious and ideological convictions. There are Christian socialists — Catholic and Protestant of different denominations — and there are atheist socialists. Each of these varieties of socialism takes it for granted that the socialist commonwealth will be guided by the precepts of their own faith or of their rejection of any religious creed. They never give a thought to the possibility that the socialist regime may be directed by men hostile to their own faith and moral principles who may consider it as their duty to use

all the tremendous power of the socialist apparatus for the suppression of what in their eyes is error, superstition, and idolatry.

The simple truth is that individuals can be free to choose between what they consider as right or wrong only where they are economically independent of the government. A socialist government has the power to make dissent impossible by discriminating against unwelcome religious and ideological groups and denying them all the material implements that are required for the propagation and the practice of their convictions. The one-party system, the political principle of socialist rule, implies also the one-religion and one-morality system. A socialist government has at its disposal means that can be used for the attainment of rigorous conformity in every regard, *Gleichschaltung* (political conformity) as the Nazis called it. Historians have pointed out what an important role in the Reformation was played by the printing press. But what chances would the reformers have had if all the printing presses had been operated by the governments headed by Charles V of Germany and the Valois kings of France?\* And, for that matter, what chances would Marx have had under a system in which all the means of communication had been in the hands of the governments?

Whoever wants freedom of conscience must abhor socialism. Of course, freedom enables a man not only to do the good things but also to do the wrong things. But no moral value can be ascribed to an action, however good, that has been performed under the pressure of an omnipotent government.

\* Charles V of Germany (1500–1558), a devoted Catholic, persecuted religious heresy in the Netherlands and struggled to suppress Lutheranism in the German principalities. During the reign of the Valois kings of France (1328–1589) religious wars were fought as French Protestants, including the Huguenots, struggled for freedom of worship.