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Source: *Challenge*, OCT. 1964, Vol. 13, No. 1 (OCT. 1964), pp. 20-22

Published by: Taylor & Francis, Ltd.

Stable URL: <https://www.jstor.org/stable/40718881>

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# The Productivity of Freedom

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*“The greater our freedom to make the best bargains, the better in general will be the results.”*

by **C. LOWELL HARRISS**

**F**REEDOM is more than an *end*, even though this in itself is of incalculable value. Freedom is also a *means* for achieving other ends, including those of economics. But what, really, does the term “freedom” mean? How does it relate to the productivity of an economy? Both questions are difficult. Neither can be answered to my full satisfaction.

“Gray areas” exist, if only because the problems are complex and the values involved are not always in harmony. The lack of certainty leads to failure to appreciate the significance of major elements. And who has not heard, many times and from many sources, statements to the effect that the world’s poor, “emerging” countries, which now seek to speed economic development, cannot *afford* freedom? Perhaps a useful purpose will be served by pointing out how economic freedom contributes to good economic performance.

Freedom implies the absence of restraint. Yet, we also think of it as the existence of opportunities—the more numerous the alternatives available, the greater our freedom. As related to economic affairs, freedom often seems to mean less, rather than more, restriction imposed through the political process—i.e., government. The person who denies the valid-

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ity and pertinence of this interpretation has been blessed by the opportunity to live where government restrictions bother him little—or perhaps he has become desensitized (or never had a chance to develop feelings for freedom).

Freedom in the fullest sense, however, covers more than the absence of governmental restriction. The freedom that counts economically—and humanely—includes the absence of privately created restrictions, except those whose origin is in some *quid pro quo*.<sup>1</sup> The massing of economic power in generally “free” markets can restrict the freedom of persons not exercising the power.

**F**REEDOM in economic, as well as in personal, life *requires* government and the restraints it imposes. The preservation of order, the enjoyment of personal rights, cannot exist without curbs on action, curbs which limit opportunity and which operate under law. Organized economic life needs “rules of the game,” a framework within which activity can be carried on with assurance about rights and obligations.

An obligation—to live up to the terms of an agreement—in one sense limits freedom. In a broader sense, however, a body of law which compels men to respect their obligations is a source of freedom and opportunity. The legal system supports contracts and arrangements that make the division of labor a viable system. The very essentials of advanced economic life require governmental imposition and enforcement of law.

Government acts in another way to “create,” while also restraining, economic freedom. Government is our institution for preventing undesirable “neighborhood” or “third party” effects. Air pollution stands as a classic example. Personal and business activity need to be controlled to reduce adverse effects on persons who are not parties to transactions. “Social costs” of private activity must not be ignored in economic calculation, and curbs on some freedoms are necessary to assure others.

Yet, government which restrains to make liberty

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<sup>1</sup> By *quid pro quo* restrictions I mean those which result from inability or unwillingness to meet the terms demanded by others in a generally competitive market—A’s failure to get a new Lincoln Continental because he was unable to meet the seller’s terms, or B’s failure to get the better job because he was unwilling to study at night. These must be distinguished from privately erected obstacles to entry into a line of business or occupation by persons who have the qualifications. Pervasive and important types of private (nongovernmental) restrictions on freedom may be illustrated: (a) some result from the existence of producing units so large that potential newcomers face hurdles which are at times insurmountable; (b) other restrictions grow out of labor union policies, whether overt restraints on entry or the more common, but less widely recognized, effects of wage arrangements that effectively exclude from jobs those persons whose productivity makes them worth less than the wage set.

possible also restricts freedom. As one surveys the broad scope of modern economic life, the frequency and extent of "gray areas" ought not to get predominant attention. The central issues are the ones we need most to understand. What is the relation of freedom to the essential "tasks" of an economic system?

An economic system exists to produce goods and services for consumers—today and in the future. But not just anything, not great masses of "this" and nothing of "that." The objective is to produce a vast *array* of goods and services in the *proportions* which will best satisfy human wishes. The best combination can be produced only if the public can, and does, reveal personal desires in all their myriad nuances. What methods of showing desires are available? One consists of our buying as individuals and as private groups. We can also reveal desires in buying collectively through government. The two processes differ—and so must the quality of the results. Three differences warrant comment.

- When buying in the market, individuals may not always do what they "really" prefer, or would prefer if they had more facts, including those which will come with experience. Mistakes are legion. Yet the person or family who makes an erroneous consumption choice will also bear the burden. When we buy collectively through government, however, a considerable minority—perhaps even a majority—will ordinarily have preferred some other arrangement. They would rather have more of this, less of that, a different "mix." The direct and indirect expression of preferences through the process of voting in political elections will leave some of the public getting less satisfaction of its wants than the dollars spent would permit. Compulsion on minorities, therefore, sacrifices human satisfactions which would be met under a "regime of freedom"—except for such truly collective wants as national defense.<sup>2</sup>

- In getting produced those things which are most likely to satisfy human wants, the freedom of the market possesses two other inherent advantages over the political, the governmental, process. First, governmental decisions are discontinuous. Once made, they often commit spending for months or years, in amounts which are subject to little or no change. Private spending, in contrast, shifts constantly. In the marketplace we can vote with every dollar on a list of candidates which is very long, indeed. Alternatives shift from day to day. Prices and qualities are kept "on the move." New opportunities appear and induce change with a flexibility impossible in government. Second, governmental spending decisions are made through intermediaries. Elected officials, the civil service and the

<sup>2</sup> There are, for example, things I want more than raising the price of cotton, putting a man on the moon soon, or subsidizing the development of new agricultural land. Yet some of my federal taxes go for these purposes.

military place the orders. The public served remains somewhat removed from the choices.

- New products and services are most likely to appear in an environment of freedom. Buyer reactions indicate how much of each shall be produced. For many good reasons, government spending patterns tend to be largely stable. Of course, innovation does occur in government, while private monopoly can restrict innovation in the world of business. But private monopoly may act progressively. And most of the world of business is very much freer and more competitive than government.

**M**OST GOODS can be produced, and most desires for services satisfied, in more than one way. Some methods are better than others. The general welfare objective is to use the minimum of inputs per unit of output. The closer the economy comes to this objective, the greater the total output obtainable from the productive resources available.

In the business world the hope for profit and the fear of loss act powerfully to compel economizing in production. Freedom provides opportunity—and more. One producer's aggressiveness in cost cutting is another's challenge or threat. Governments, however, do not need to meet cost demands in the same sense as do businesses. If the taxpayer can be compelled to pay the bills (including losses in commercial-type activities), what are the inducements to economizing?

Efficiency demands smaller rather than greater use of inputs per unit of output. To take advantage of opportunities—to adjust to the unending (and also uneven) change of the prices of inputs and of technological possibilities, a producer must be free. He must also be under pressure to do what seems best. Production possibilities differ widely from time to time, from place to place. Any single pattern, no matter how well adapted to some situations, will be unsuited to others—and definitely bad for some. Freedom permits the public to benefit from such variety.

Where producers are free to seek better methods—and even more certainly where producers are under the pressure of competition to reduce costs—the public stands to benefit. Government agencies cannot be expected to improve efficiency to the extent that, and as promptly as, changes in technology and in the prices of inputs would permit. Nor does governmental regulation appear promising as an "encourager" of cost reduction. The governmental agency, whether as an operating entity or as one regulating private businesses, faces more than one disadvantage as a promoter of production efficiency. So does the business firm or the labor union which is somewhat insulated from the free competition of others. Union featherbedding and obsolete building codes are not the only examples.

As producers many of us may nurse a sneaking

sympathy for productivity-impeding restraints if they seem to create demand for *our* labor or what *we* have to sell. Nevertheless, the result in any “not-so-long” period will be some failure to improve the relation of outputs to inputs. Society suffers. To repeat, protection from the forces of freedom will result in greater use of productive resources per unit of output.

For the economy as a whole, there can be no Santa Claus, no free lunch. Society must pay for what it gets. The payments thus made are the incomes of the recipients. Most of us are on both sides—paying and receiving. On one side, we want the amount to be large; on the other side, we want it to be small. Each of us presumably tries to do the best he can, to make the best settlement possible with what he has—in getting income and then in using it.

The greater our freedom to make the best bargains, the better in general will be the results.<sup>3</sup> No one wants to pay others more than their services are worth, and our freedom to reject demands for overpayment reduces the likelihood that one will do so. In turn, the broader our range of freedom, the larger our opportunities to get the most that our services are worth to others.

In contrast, restrictions on freedom—whether imposed by government, the possessors of private power, or one’s own commitments made earlier—will make the terms for some less good. As a result of such compulsion, we shall pay more than is inherently necessary for what we get—and get less than our services are worth.

The distribution of income which results from complete freedom would be less than ideal by standards to which most of us hold. The person with no productive capacity might be left out in the cold because private philanthropy—a not insignificant feature of free society as we know it—might not fill all of the distressing gaps. Long ago government came to use funds collected in taxes to meet some needs of persons whose income from production seemed inadequate. Who among us does not endorse such policy? Modern society goes farther. Transfer payments (such as social insurance and farm aid) modify income distribution in ways markedly different from those of the free market. So do taxes. The general results may or may not suit us better than those emanating from freedom.

Nevertheless, in three highly important respects the consequences of freedom have no small economic merit.

- The kinds of services desired are most likely

<sup>3</sup> Exceptions there are, and they account for some of the “gray areas” mentioned earlier.

to be forthcoming if demanders and suppliers are free to make the best deals possible. If people want school teachers in greater number, or in better quality, salaries will rise.

- Efficiency in utilization will be encouraged. The employer will not use \$4-an-hour men on jobs worth \$3 an hour. Men capable of producing enough to justify \$4 an hour will not spend their time on jobs worth \$3 an hour. The desire for income leads free men to “allocate” themselves toward the work where the rewards are highest because productivity is highest.

- Men seeking work will not be denied jobs because someone else sets conditions—sex, color, age or creed—which are not pertinent to the task. Nor will a man be denied work because his productivity does not come up to the lowest level of wage rate permitted by law, union-management agreement, or custom.

**E**CONOMIC PROGRESS requires that things be done differently. What could be more obvious than that innovation, change, the striking out in new directions, all depend upon freedom? Bureaucracy—in government, in large businesses or labor unions, perhaps even in universities, religious organizations and private foundations—provides stability without which progress is impossible. Yet bureaucracy and the slow decision-making processes of legislatures will impede the change which makes up the very essence of economic progress. Perhaps the greatest contribution of freedom to economic productivity lies in the fruits of progress.

Reality cannot compete with dreams, at least not “fairly.” How easy to romanticize, perhaps about free enterprise, perhaps about possibilities of improving the world by some governmental policy which will restrict the freedom of others!

Mr. Dooley made a good point when he said, “A man that’d expect to train lobsters to fly in a year is called a lunatic; but a man that thinks men can be turned into angels by an election is called a reformer and remains at large.” Government will inevitably influence economic affairs extensively. One element of the essential intervention will deal with private market power or particular “soft spots.” Let’s hope that the results will be constructive.

Yet, is it not a bit sobering to look at almost the oldest of governmental interventions—ICC regulation of railroads and the financial outlays for agriculture? The results are less than brilliant, scarcely models for the “good society.” One reason for the lack of success in these cases is that governmental activity has imposed restrictions on freedom rather than enlisting freedom in combination with those things which government has to offer. ■