

# The Productivity of Freedom

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Freedom is more than an *end*, something which in itself is of incalculable value. Freedom is also a *means* for achieving other ends. Among the objectives which freedom helps man achieve are those of his economic life.

But what, really, does the term "freedom" mean in relation to economics? How does it relate to the productivity of an economy? Both questions are difficult. Neither of them am I able to answer to my own full satisfaction. Few of the many aspects are black or white. Gray areas exist. The problems are complex. The values involved are not always in harmony.

The lack of certainty does more than compel caution in presenting conclusions. The existence of doubt also leads to failure to recognize points which, it seems to me, should be more nearly clear than debatable. My university students seem rarely to appreciate the significance of some major elements. and who has not heard, many times and from many sources, statements to the effect that the world's poor, "emerging" countries cannot afford freedom because of their desire to speed economic development? Economic freedom, however, can make an incomparable contribution to good economic performance.

### **Freedom — The Concept**

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., by government. Who will deny the validity and the pertinence of this interpretation? Denial may come from the person who has been blessed by the opportunity to live where governmental restrictions bother him little — or by the man who has become desensitized (or never had a chance to develop feelings for economic 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 whose origin is not in some *quid pro quo*.<sup>1</sup> The massing of economic power in various parts of an economy with generally "free" markets can restrict the freedom of persons not exercising the power.

Freedom in economic, as well as in personal, life requires government and the restraints it imposes. The preservation of order and the enjoyment of personal rights cannot exist

without curbs on action, curbs which limit opportunity but 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.

A binding legal 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 makes possible the contracts and arrangements which are indispensable for specialization and capital accumulation. The essentials of advanced economic life require the governmental imposition, and enforcement, of law.

Government acts in another way to create, while also restraining, economic freedom. Government can use the power of coercion to prevent undesirable "neighborhood" or "third-party" effects. Restrictions against the pollution of air and rivers or inappropriate uses of land provide example. Personal and business activity need to be controlled to reduce adverse effects on persons who are not parties to the transactions. In short, "social costs" of private activity must not be ignored in society's economic calculations if we are to get best overall results. Curbs on some freedoms are necessary to assure the existence of others.

Yet the government which restrains (participates or intervenes — different terms carry different connotations) to make liberty possible also restricts freedom. In surveying the broad scope of government restraint in modern economic life, one sees many "gray areas." Their frequency and extent, however, ought not to get predominant attention. The central issues deserve attention and most need to be understood. What is the relation of freedom to the essential tasks of an economic system?

### **What Goods and Services Shall be Produced?**

An economic system exists to produce goods and services for consumers — today and in the future.<sup>2</sup> 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 optimum 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 method consists of our buying as individuals and as private groups — voting in the market place with our money. We can also reveal desires in buying collectively through government. The processes of individual and collective buying differ — and so must the quality of the results. Three differences warrant comment.

1. 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.<sup>3</sup> Mistakes are legion. Yet the person who makes an erroneous consumption choice will also bear the burden. The effect on incentives will be direct and unrelenting. 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 of "public" and private goods and services. 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 and internal policing.’

2. 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, that is, the governmental, process. (a) Governmental decisions are discontinuous. They are made at infrequent intervals. Once made, they often commit spending for months or years, and in amounts which are subject to little change. Much private spending, in contrast, shifts constantly. In the market place we can vote with every dollar on a list of candidates which is long indeed. Alternatives shift from day to day. Prices and qualities are kept on the move. New opportunities appear. Consumer reaction to them induces changes with a flexibility rarely possible in government purchasing. (b) Governmental spending decisions are made through intermediaries, not by the ultimate user, the citizen being served. Elected officials, the civil service, and the military place the orders. The public served remains somewhat removed from the choices.

3. New products and new types of services are most likely to appear in an environment of freedom. Buyer reactions then 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.<sup>5</sup>

Yet even private monopolies may act progressively. And most of the world of business is freer and more competitive than government.

## **How to Produce**

Most 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? They exist, but making them powerful and effective requires exceptional imagination, effort, and freedom within government.

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 (a) of the prices of inputs and (b) 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, permitted by changes in technology and changes in the prices of inputs. Nor does governmental regulation appear promising as an "encourager" of cost reduction. The governmental agency, whether as an operating entity or 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. Not the only examples in America are to be found in the make work policies of labor unions and obsolete local laws affecting new construction.

As producers, many of us may nurse a sneaking sympathy for restraints which impede the growth of productivity 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 output to input. Society suffers. To repeat, protection from the forces of freedom will result in greater use of productive resources per unit of output.

### **Who Gets What?**

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. No one wants to pay others more than their services are worth, and freedom to reject demands for overpayment reduces the likelihood that we shall be forced to 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 of our bargains less satisfactory than is potentially possible.

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, judging by the 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 in America — might not fill all humanely 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?



## Transfer Payments Modify Income Distribution

Modern society goes farther. Transfer payments (such as social insurance and aid to farmers) modify income distribution. The results differ from those of the free market. Taxes also redistribute income and wealth. The general results may, or may not, suit us better than those from freedom.

Nevertheless, in three important respects the consequences of freedom have no small economic merit. 1) The kinds of services desired are most likely to be forthcoming if demanders and suppliers are free to make the best deals possible. 2) Efficiency in utilization will be encouraged. The employer will not use labor being paid \$4 an hour on jobs worth \$3 an hour. Men capable of producing enough to justify \$4 an hour will rarely 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 worker productivity is highest. 3) 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.

Economic 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 processes of legislatures get in the way of 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.

## Concluding Comment

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. Another will involve efforts to meet the problems of particular "soft spots" — individuals, groups, areas — in exceptional need. Let's hope that the results will be constructive. Yet is it not a bit sobering to look at almost the *oldest* example of governmental intervention in the United States — regulation of railroads — and that which today gets the *most financial outlay* — 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.

One advantage of prosperity is that it frees us from the need to worry about small economic problems. Many details of government spending are just that, small and unimportant. But many are not. The quality of the decisions must influence profoundly the quality of society. In the words of one of history's greatest economists, Alfred Marshall:

Government is the most precious of human possessions; and no care can be too great to be spent on enabling it to do its work in the best way a chief condition to that end is that it should not be set to work for which it is not specially qualified, under the conditions of time and place.

### —FOOTNOTES—

<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 auto 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 by persons who have the qualifications into a line of business or occupation. Private (nongovernmental) restriction on freedom may be illustrated: (a) the existence of producing units so large that potential newcomers face hurdles which are at times insurmountable; (b) wage agreements that effectively exclude from jobs those persons whose productivity makes them worth less than the wage set.

<sup>2</sup> The nature and conditions of work are no less important than many of the rewards we call consumption. Both positive and negative values lie in work, activity, in the job itself. Here, too, freedom plays a role of paramount significance. The more numerous the opportunities to select among alternatives, the greater the likelihood that one can settle on the best combination of job conditions among those available and also induce the type change which makes for better jobs.

<sup>3</sup> As consumer goods get more complex, the need for information increases.

<sup>4</sup> More typically, the family rather than the individual is the unit involved. There are, for example, things I as an individual want rather more than higher prices of food, putting a man on the moon soon, or subsidizing the development of new agricultural land. Yet some of the taxes I pay to the national government go for these purposes.

<sup>5</sup> Obstacles to innovation in business are not limited to monopoly in any strict sense of the term. Lethargy, ignorance, lack of capital, and red tape inside a company are among factors limiting innovation.