
Why Freedom Matters

BY JAMES A. DORN

The future of civilization depends on preserving and spreading freedom. As a moral principle, freedom means we ought to respect private property rights, broadly understood as the rights to life, liberty, and property. As a practical matter, when private property rights are protected by law, individuals will be free to trade for mutual gain and be held responsible for their behavior. Social and economic coordination—or what F. A. Hayek called “spontaneous order”—emerges from the voluntary decisions of millions of free people under limited government and the rule of law.

Those nations that have failed to adopt freedom as a first principle have also failed to realize the benefits of freedom. They have ignored the great liberal idea, as articulated in *The Law* by Frédéric Bastiat in the mid-nineteenth century, that “the solution of the social problem lies in liberty.”

By “social problem” Bastiat meant the problem of coordination that confronts every society—that is, the problem of satisfying people’s wants for goods and services without central planning. The beauty of the market system, based on private property rights and freedom of contract, is that it allows individuals to continuously adjust to new information about wants, resources, and technology, and to engage in mutually beneficial exchanges. Economic freedom increases the range of choices and thus the wealth of nations.

Those countries with greater economic freedom have higher standards of living than those with less freedom (figure 1). Moreover, countries that have liberalized more quickly—as measured by the index of economic

freedom—have tended to grow faster than countries that have failed to liberalize or that have liberalized more slowly (figure 2). Economists James Gwartney and Robert Lawson, the authors of the Fraser Institute’s annual *Economic Freedom of the World*, find that “long-term differences in economic freedom explain approximately two-thirds of the variation in cross-country per capita GDP.” It is no secret that countries that have

opened to the forces of international trade and have restrained the growth of government have prospered, while those countries that have limited the scope of the market have stagnated.

Hong Kong’s consistent adherence to market-liberal principles has resulted in long-run prosperity and the world’s freest economy since 1970. In its *2005 Index of Economic Freedom*, the Heritage Foundation and the *Wall Street Journal* once again ranked Hong Kong number one. On hearing the good news, Financial Secretary Henry Tang remarked, “I am pleased

virtues we have been upholding to keep Hong Kong flourishing as a free market economy have once again been reaffirmed by the international community.”

Those virtues include credibility and reliability, prudence and thrift, entrepreneurial alertness, personal responsibility, respect for others, and tolerance. They are

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fostered by private property rights, the rule of law, freedom of contract, open trade, low tax rates, and limited government. Nations that have not followed the virtues of Hong Kong have not reaped the long-run benefits of economic freedom. North Korea, Cuba, Sudan, Iraq, and Haiti are but a few examples.

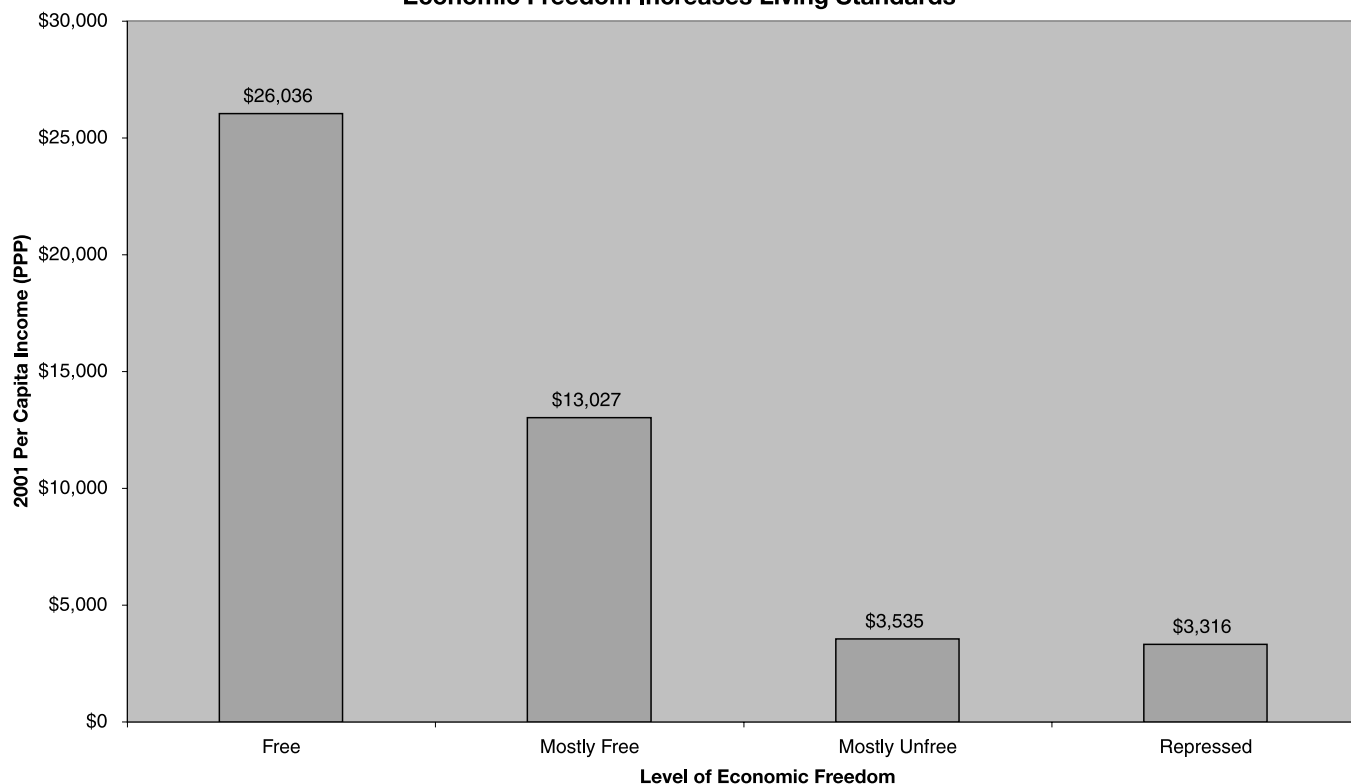
The lesson is that the virtues of the market require constant practice if they are to survive and flourish. Government policy must be market-friendly and transparent; it cannot be muddled. Markets discount future effects of current policy changes. If those changes are in the direction of greater economic freedom, they will be immediately rewarded and wealth created. Illiberal trade policies, higher tax rates, increased government spending, erratic monetary policy, and wage-price controls undermine private property rights, send negative signals to the global capital markets, and destroy the wealth of nations.

The failure of central planning in the Soviet Union and China has moved those countries in the direction of greater economic freedom, but the ghost of communism still haunts Russia, while the Chinese Communist Party has yet to abandon its monopoly on power.

Leaders of emerging market economies need to recognize that economic freedom is an important component of personal freedom, that free-market prices and profits provide useful information and incentives to allocate resources to where *consumers* (not politicians or planners) deem them most valuable, and that markets extend the range of choice and increase human welfare. Most important, leaders must understand that ultimately economic liberalization requires limited government and constitutionally protected rights.

Emerging market economies, especially in Asia, have discovered the magic of the market; they have also found that chaos emerges when the institutional infrastructure

Figure 1
Economic Freedom Increases Living Standards



Source: Ana Eiras, "Why Economic Freedom, Not Aid, Is the Answer to Poverty," in Marc A. Miles, ed., *The Road to Prosperity* (Washington: Heritage Books, 2004), p. 39.

necessary for free markets is weakened by excessive government. When politics trumps markets, coercion and corruption follow.

The Ethical Basis

The ethical basis of the market system is often overlooked, but not by those like Zhang Shuguang, an economist at the Unirule Institute in Beijing, who were deprived of their economic liberties under central planning. He compares the coercive nature of planning with the voluntary nature of the market and concludes: “In the market system . . . the fundamental logic is free choice and equal status of individuals. The corresponding ethics . . . is mutual respect, mutual benefit, and mutual credit.”¹

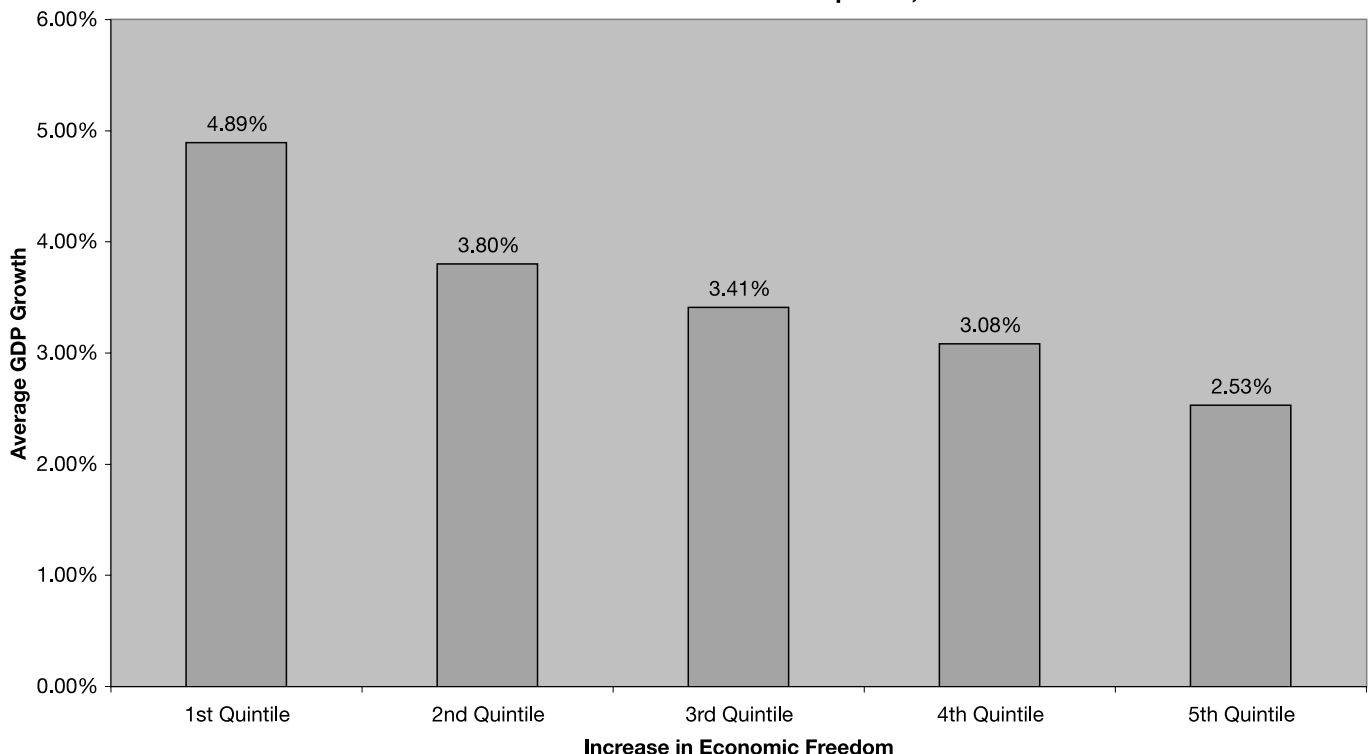
The moral justification for individual freedom is self-evident. In *Ethics for the New Millennium*, the Dalai Lama wrote: “We all desire happiness and wish to avoid suffer-

ing. . . . Ethical conduct is not something we engage in because it is somehow right in itself but because, like ourselves, all others desire to be happy and to avoid suffering. Given that this is a natural disposition, shared by all, it follows that each individual has a right to pursue this goal.”

Freedom without rules is an illusion. The famous Zen master Shunryu Suzuki wrote in his classic text, *Zen Mind, Beginner's Mind*: “People, especially young people, think that freedom is to do just what they want. . . . But it is absolutely necessary . . . to have some rules. . . . As long as you have rules, you have a chance for freedom.”

The rules necessary for a market-liberal order are rules to protect the private sphere so individuals can pursue their self-interest while respecting the equal rights of others. Without clear rules to limit the use of force to the protection of persons and property, freedom and justice will suffer—and economic development, properly understood, will cease.

Figure 2
Increases in Economic Freedom and Development, 1995–2002



Source: Eiras, p. 40.

Note: Countries with the largest increase in economic freedom, as measured by the Heritage/Wall Street Journal index, are in the 1st quintile; those with the smallest increase are in the 5th quintile.

In 1740 the great liberal David Hume wrote that “the peace and security of human society entirely depend [on adherence to] the three fundamental laws of nature, *that of the stability of possession, of its transference by consent, and of the performance of promises*” (*A Treatise of Human Nature*). His legacy of liberty should not be forgotten.

Development and Freedom

In *Economic Analysis and Policy in Underdeveloped Countries*, the late Peter (Lord) Bauer argued that economic development and freedom are inseparable: “I regard the extension of the range of choice, that is, an increase in the range of effective alternatives open to people, as the principal objective and criterion of economic development.”

Economists have found that countries with secure private property rights create more wealth (as measured by real GDP per capita) than countries in which property is not protected by law. Trade liberalization is vital to the process of development. Voluntary international exchange widens consumers’ range of effective choices and lowers the risk of conflict.

There is a saying in China: “*Wu wei ze wu shu bu wei*”—“If no unnatural control, then there is nothing you cannot do.” In the *Tao Te Ching*, Lao Tzu advocates the principle of nonintervention (*wu wei*) as the ideal way of ruling. The wise ruler says, “I take no action and the people of themselves are transformed. I engage in no activity and the people of themselves become prosperous.”² To take no action does not mean to do nothing, but rather, as Chinese scholar Derk Bodde has noted, to refrain from those actions that are “forced, artificial, and unspontaneous.”³

A natural order is one consistent with free markets and free people; it is Adam Smith’s “simple system of natural liberty.” As former Czech President Václav Havel so elegantly stated after the collapse of the Soviet Union, the free-market economy is “the only natural economy, the only kind that makes sense, the only one that can lead to prosperity, because it is the only one that reflects the nature of life itself.”⁴

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Leaders in the West as well as the East should keep the following five lessons in the forefront of their minds as they contemplate future policy decisions: (1) private property, freedom, and justice are inseparable; (2) justice requires limiting government to the protection of persons and property; (3) minimizing the use of force to defend life, liberty, and property will maximize freedom and create a spontaneous

market-liberal order; (4) private free markets are not only moral, they create wealth by providing incentives to discover new ways of doing things and increase the range of alternatives; and (5) governments rule best when they follow the rule of law and the principle of noninterference.



1. Zhang Shuguang, “Foreword: Institutional Change and Case Study,” in Zhang Shuguang, ed., *Case Studies in China’s Institutional Change*, vol. 1 (Shanghai: People’s Publishing House, 1996), p. 5.

2. In Wing-Tsit Chan, ed., *A Source Book in Chinese Philosophy* (Princeton, N.J.: Princeton University Press, 1963), p. 167.

3. Derk Bodde, trans., in Fung Yu-lan, *A History of Chinese Philosophy*, vol. 1, 2nd ed. (Princeton, N.J.: Princeton University Press, 1952), p. xxiii.

4. Václav Havel, *Summer Meditations on Politics, Morality, and Civility in a Time of Transition* (London: Faber and Faber, 1992), p. 62.