

Lesson Ten

Free Enterprise

LESSON IDEA

The American free enterprise economic system, while admittedly imperfect, provides a greater abundance of high-quality goods than does communism, socialism, fascism, or other collectivist systems, including government-run enterprises within our own country.

VISUAL AID

None recommended for this lesson.

THE ECONOMIC SYSTEM of the United States is usually called free enterprise.

Tonight, let's discuss what that means, and how free enterprise compares with other economic systems. Let's see if we can determine why free enterprise can only flourish under freedom, and why it surpasses such collectivist alternatives as communism, socialism, and fascism in providing an abundance of high-quality goods and services.

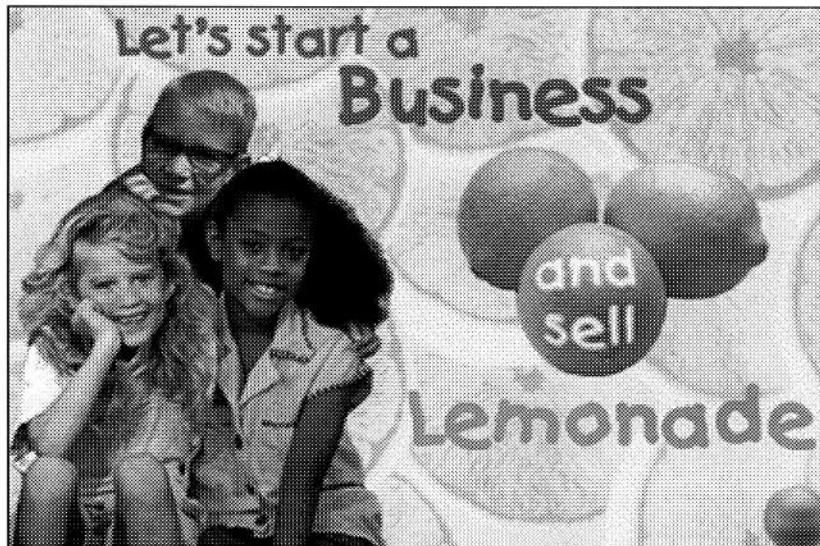
"Free enterprise" is sometimes confused with "private enterprise"; the two terms do not necessarily mean the same thing. Piracy, for instance, is a private enterprise, but it is not a free enterprise, since its success depends on violating the property rights of others. Likewise, the Mafia is a private enterprise, but since it relies on murder, coercion, and theft, it can hardly be considered a free enterprise.

All free enterprises are private enterprises, but not all private enterprises are free enterprises.

Free enterprise entails men and women working voluntarily at whatever tasks they do. They

must also be free to exchange the fruits of their labor with each other. Under free enterprise, we can choose to be an engineer, architect, doctor, bricklayer, truck driver — the choice of professions is virtually unlimited. We can build a factory and make television sets, safety pins, computers, or model racers. We can decide where to buy materials and how much to charge for the products we make or services we offer. In other words, free enterprise means being free to make economic decisions, so long as we do not interfere with the rights of others to do likewise.

Free enterprise made it possible for the United States to have more material necessities and comforts of life than any other nation in history. Whereas communist countries had to erect barriers (such as the Berlin Wall) to keep their people from leaving, we had to pass immigration laws to limit the number of people com-



U.S. Govt. (STANIS) graphic

Every business, from lemonade stand to large company, benefits from our free enterprise system!

ing here from other countries, because so many desired to do so.

Not everyone in our country favors free enterprise, however. Some even urge that it be replaced by some type of socialistic system. It is important to note, however, that many of those most actively engaged in criticizing free enterprise depend on its fruits to wage their assault. Their food, clothing, shelter, books, cars, telephones, television sets, radios, musical instruments, microphones, printing presses, computers, and many other items are readily available only because the free enterprise system has worked so well. In many of

the socialist countries they admire, such items would only be available, if at all, at prohibitive prices.

SOMEONE ONCE calculated what the United States would have had to do to match the economic status of the former Soviet Union (which was later recast as Russia and several other socialist countries that are still struggling economically). It was discovered that we would have had to:

- Reduce our steel production by 60 percent.
- Reduce our output of electricity by 66 percent

FOR YOUNGER AMERICANS

The concluding segment of this lesson, dealing with the "paper blizzard" and other examples of government interference with the economy, may be omitted for younger children. Instead, focus on the startling difference in results between free enterprise and socialism. Cite such additional comparisons between the old Soviet Union and the United States as the following:

1. The average American worked for only 57 hours to earn enough to purchase a television set, and then had a large variety of stations and programs to choose from. In the Soviet Union, a worker labored for 695 hours to buy a T.V., and the government controlled the programming.

2. An American worked about 4½ hours to buy a pair of shoes, with a plethora of styles and sizes to choose from. In the Soviet Union, it required an average of 49 hours to earn enough to buy shoes, and even then the selection was limited and the quality inferior.

3. An American earned a pound of butter in less than 30 minutes, while a Soviet citizen was forced to labor for more than two hours, and then might not be able to purchase butter due to shortages.

4. An American worked about one week to earn enough to buy a washing machine; in the Soviet Union, it required a month's wages.

Based on such comparisons, ask your children which system they would prefer. Why did free enterprise in the United States accomplish so much more than did socialism in the Soviet Union? What did one United States Senator mean when he said that "if a communist regime were to take over in the Sahara, there would in time be a shortage of sand"? Which principles discussed in earlier lessons are not being followed in socialist countries today? Which of those principles, if any, are eroding here in the U.S.?

- Reduce our petroleum production by 66 percent.
- Reduce our construction of hydroelectric plants by 95 percent.
- Reduce our consumption of natural gas by 90 percent.

In addition, it would have been necessary to destroy:

- Fourteen out of every 15 miles of pavement.
- Two out of three miles of railroad track.
- Eight out of ten ships.
- Nineteen out of 20 cars and trucks.
- Forty million T.V. sets.
- Nine out of ten telephones.
- Seven out of ten homes.

In all, it was determined that we could match the Soviet system by reducing our standard of living by 75 percent. And while we would have had to send some 60 million of our citizens back to the farm, they would not have produced enough to feed the rest of the nation.

Despite such impressive evidence, some would have us exchange a proven economic system that has generated more abundance for more people than any other in history, for a collectivist alternative that has floundered everywhere it has been tried.

Some additional revealing comparisons can be made between free enterprise and government control here at home. Suppose that you were living, say, about 150 years ago, and were faced with solving the following problems:

1. How to carry the human voice instantly from an American city to a foreign country;
2. How to transport over three hundred people from New York to Los Angeles in less than five hours;
3. How to build and maintain roads adequate for the vehicles that travel on them;
4. How to convey the sight and sound of a football game in California to homes throughout the country and elsewhere in the world, while the game is in progress.

Which of the four tasks would have seemed easiest to achieve in the mid-1800's? [Give everyone an opportunity to choose, and ask each to explain their choice.]

Clearly, the third problem (building and maintaining adequate roads) would have seemed easiest at the time, since many roads already existed

FOR SERIOUS STUDENTS

Another important feature of free enterprise is its tendency to bring good results from the actions of unprincipled men. The career of John D. Rockefeller Sr. could be studied as an example. He was considered to be extremely ruthless, and many of his methods and actions were questionable. But due to the nature of the free enterprise system, as he worked to gain personal wealth and power he was compelled to produce goods and services (and create tens of thousands of jobs) which have been of enormous benefit to the world. Among the by-products of the oil industry which he was instrumental in developing are plastics, asphalt, butane, propane, lubricants, and petrochemicals.

Consider the contrary results for mankind from the actions of ruthless and ambitious men who used government to gain wealth and power. What is the legacy of the likes of Adolph Hitler, Benito Mussolini, Mao Tse-tung, and Joseph Stalin? The human suffering caused by such unscrupulous despots has far exceeded, in brutality and body count, anything ever attributed to those who have worked within the free enterprise system.

Which system is more humane? Which provides the most benefits and protection for its citizens? Why?

and had not been too difficult to either construct or repair. Would our forebears even have dreamed of television, telephones, or jet aircraft? Had someone traveled back in time and described such inventions to them, would they have believed it to be possible?

Yet today, as we watch television, fly in jet planes, and talk on the cell phones (to say nothing of using computers to surf the Internet) without giving such astonishing developments a second thought, what is the condition of our roads? Road maintenance is a persistent issue in local (and sometimes national) elections, because those in charge of keeping them repaired and in good condition have yet to find an efficient and inexpensive way to do so.

Why do you think that so many devices that would have been considered fantastic only 150 years ago are now commonplace, while problems that would have been deemed easy to solve then, continue to plague us today? Can you see a major differences between the telephone, television, and airplanes, and our highways? [Encourage each person to answer.]

One crucial factor is that the airplane, tele-

phone, and television were largely developed by free enterprise, while road maintenance has remained the responsibility of government.

A few years ago, someone was cleaning house and found an electric bill which had been sent to a customer in 1907. The total came to \$7.00 for one month's service (14 kilowatt-hours of electricity). The cost of the postcard was a penny.

During the intervening years, the cost of a postcard has risen to 20 cents, while the price of electricity has declined from an average of 50 cents to less than seven cents per kilowatt-hour. In other words, while the postage rate has increased by 2000 percent, the cost of electricity is less than 14 percent of what it was in 1907!

Let's assume that a home uses 20,000 kilowatt hours of electrical power annually. At today's prices, the cost for one year would be about \$1,300. If the rates were the same as in 1907, however, the expense would be around \$10,000. And if the cost of electricity had kept pace with the price of postcards, the annual electric bill for the home would be a staggering \$400,000!

This illustrates an important and unique characteristic of free enterprise: As the quality and variety of goods and services increase, their prices tend to decrease. In contrast, services operated or heavily controlled by government tend to increase in price as they decline in quality (Medicare and Medicaid are examples).

The first television sets were not only very expensive, but often required repairs every few months. Yet, as more people decided to go into the business of manufacturing and selling television sets to meet the growing demand, the quality of the sets not only improved, but prices dropped to the point that nearly every family could afford one (and in many cases two or more). It has been the same for many other products, from VCRs and wristwatches to computers and ballpoint pens: As quality has risen, prices have plummeted.

Another important characteristic of free enterprise is that, as a general rule, everyone involved wins. When consumers and producers are free to negotiate a price for goods or services, a sale is made only when each party believes he will receive more than he gives up.

Suppose, for instance, that a farmer has more potatoes than he can use for himself and his family, so desires to sell the excess. There is a potato

chip factory in town, whose manager needs potatoes. He contacts the farmer and they negotiate a price. If they reach an agreement, and the sale is made, it means that both are satisfied with the terms. The money the farmer receives for his potatoes will be worth more to him than the potatoes, or he won't agree to sell. And the potatoes will be worth more to the manager than the money he pays for them, or he won't agree to buy. The deal depends on each side being satisfied.

This principle of "everyone a winner" holds true all along the line, to the point where a customer in a supermarket buys a bag of potato chips. She wants the chips more than the money she pays for them, and the owner of the supermarket wants her money more than he does the bag of chips. There is a net gain for both, and each is justified in saying "Thanks!" to the other.

HAVE YOU EVER heard of the "paper blizzard"? This is the term used to describe the huge amount of paperwork with which private businesses must cope to comply with government regulations. A few years ago, one agency of the federal government required 114 producers of natural gas to fill out a questionnaire 350 pages long! The questionnaire weighed ten pounds, and was accompanied by a 65-page booklet of instructions describing how to fill it out.

Shortly after it was created, the federal Occupational Safety and Health Administration (OSHA) mailed a 250-page set of rules and regulations to millions of American businesses, and during its first year of operation issued a stack of rules, warnings, explanations, and other documents standing 17 feet high. Employers were expected to know and understand this material, lest they risk being fine and/or imprisoned for violating OSHA regulations.

In the 1970s, our economy was plagued with shortages of such items as gasoline, meat, eggs, and other energy and food commodities. To what extent could the shortages have been caused or aggravated by government interference with the free enterprise system? [Explain how price controls, such as those imposed by President Richard Nixon in 1971, create shortages by discouraging production.]

Our discussion of free enterprise would be incomplete without noting that this efficient eco-

nomic mechanism cannot, by itself, guarantee that a nation will survive or prosper. The free market pays no heed to the morality or immorality of what it furnishes. If there is a demand for Bibles, they will be supplied. If there is a demand for pornographic trash, it, too, will be supplied. It is therefore vital to remember that, if our nation is to be strong and productive, our free enterprise system must have the support of citizens with high standards of personal morality and responsibility.

A Concluding Thought

In the ideal free enterprise system, everyone voluntarily decides how (and if) they will provide goods and services to others, and everyone decides without coercion which of the available goods and services they will (or will not) buy. Consumers and sellers remain free to negotiate prices, free of government constraints.

That ideal may never be perfectly achieved in this imperfect world, but we should constantly strive to achieve it, and resist efforts to abandon it.

Looking Ahead

In the next lesson, we will discover what happens in a mythical kingdom when a power-hungry ruler attempts to regulate and run the economy.