

# FREE ENTERPRISE

*Our Heritage, Our Wealth*



*Fourth Edition*

A. Paul Ballantyne

John Brock

Dale R. DeBoer

Timothy Tregarthen

"A splendid booklet which states in very clear and eloquent terms the case for free enterprise."

*-Milton Friedman, Nobel Laureate Economics*



COLORADO COUNCIL ON  
ECONOMIC  
EDUCATION

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FREE ENTERPRISE: OUR HERITAGE, OUR WEALTH

# FREE ENTERPRISE

*Our  
Heritage*

*Our  
Wealth*

*Fourth Edition*

*Authors:*

A. Paul Ballantyne  
John Brock  
Dale R. DeBoer  
Timothy Tregarthen

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## Authors



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Dr. Ballantyne, Professor of Economics at the University of Colorado since 1967, has a B.A. from the University of Southern California, M.A. University of Iowa and Ph.D. Stanford University. He taught at the University of Iowa, U.S. Air Force Academy, Colorado College and University of Pittsburgh in their Semester at Sea Program.

Dr. Ballantyne has received several teaching awards at the University of Colorado, including the Outstanding Teacher of the Year Award in 1994. He was recipient of the Chancellor's Award given for outstanding teaching, research and service, and is listed in *Who's Who in America* and also in *American Men and Women in Science*.

He has consulted internationally with the Russian Academy of Economic Science in Moscow and with Sumy State University in Ukraine, which awarded him an Honorary Doctorate in 2004. He has written in the areas of monetary theory, economic development, economic education, and macroeconomics.



### *Dr. John Brock*

Dr. Brock is Director of the Center for Economic Education and a Senior Instructor of Economics at the University of Colorado in Colorado Springs. Prior to joining the University of Colorado in the mid-1990s, he was a Professor and Deputy Department Head at the United States Air Force Academy.

He received a B.S. from the Air Force Academy, an M.B.A. from the University of Southern California, and a Ph.D. from Cornell University (all in economics).

He received the Air Academy Academy's Outstanding Educator Award in 1984 and the University of Colorado's Outstanding Teacher of the Year Award in 2002.

Since 1998 Dr. Brock has been traveling to Russia, Ukraine, Hungary and Lithuania to assist educators in transition economies with methodologies for teaching market economics. In 2004, with a grant from the National Council on Economic Education, he took four Colorado high school economics teachers on a Study Tour to Vilnius, Lithuania, in order to form classroom partnerships with Lithuanian schools. He has published articles as well as a handbook on using experimental economics in the classroom.



### *Dr. Dale DeBoer*

Dr. DeBoer is an Associate Professor and Chair of the Department of Economics at the University of Colorado, Colorado Springs. He received his B.A degree in Philosophy from the University of Washington, and his M.A. and Ph.D. from the University of California, Davis.

He is the recipient of four teaching awards including the University of Colorado's Outstanding Teacher of the Year Award in 1999.

Dr. DeBoer is currently working on the integration of online instructional tools into the economics curriculum and researching the macroeconomic implications of the information technology revolution.

He has served as a consultant to several information technology start-ups and to the national assessment effort of the Early Head Start Assessment Project.



### *Dr. Timothy Tregarthen*

Dr. Tregarthen is Professor Emeritus of Economics at the University of Colorado in Colorado Springs. He taught at the University from 1971 to 1996. He served as Chairman of the Department of Economics from 1974 to 1985. He received two University of Colorado Outstanding Teacher of the Year Awards, and the Chancellor's Award.

Dr. Tregarthen completed his graduate work in economics at the University of California at Davis, where he was a Woodrow Wilson National Fellow and a Regents Fellow. He received his M.A. and Ph.D. in economics. He was student body president at California State University at Chico and received his B.A. in economics *magna cum laude*.

He was Executive Editor of *The Margin* magazine from 1985 to 1994. He founded the freshman seminar program at UCCS in 1991. He has been a visiting professor at the Colorado College and for the University of Colorado's Semester at Sea program.

He is the author of hundreds of articles on a wide range of economic issues. He has written two books and a nationally syndicated humor column on economics from 1980 to 1985.

## Preface to the Fourth Edition

On behalf of the Board of Directors, faculty and staff of the Colorado Council on Economic Education, we are pleased to present this fourth edition of *Free Enterprise: Our Heritage, Our Wealth*. As citizens of the United States, all of us are beneficiaries of a dynamic and vibrant economic system. Our free enterprise economy has generated historically unprecedented per-capita wealth which is more than four times the amount necessary for classification by the World Bank as a “high income” country (see p. 2).

Although our free enterprise system has proven very successful, the fundamental economic principles on which it is based are not well understood by many Americans. This fourth edition provides a succinct and very readable explanation of how a market economy works. Speaking at the 2002 National Summit on Economic and Financial Literacy, Roger W. Ferguson, Jr., Vice Chairman, Board of Governors of the Federal Reserve System, graphically illustrated the past failure of our K-12 education system to meet the need for economic literacy when he stated: *By the time I graduated from junior high school, I had read the Constitution; not until much later did I study how prices are set in a market economy.* With today’s internet-linked financial markets, unrestricted capital flows and a global workforce ready to adapt, a single global market is now the central economic reality. Thus, a solid understanding of how free markets work has never been more important.

CCEE acknowledges and thanks Professor A. Paul Ballantyne, Department of Economics, University of Colorado at Colorado Springs (UCCS), for his leadership in creating *Free Enterprise* and for his thirty-one years of service to the cause of economic education. New perspectives, and insights for the third edition were provided by John Brock, Director of the UCCS Center for Economic Education and by Professor Dale DeBoer, Chair of the UCCS Department of Economics. This fourth edition was prepared by A. Paul Ballantyne and Dale DeBoer. It features new and updated economic statistics and as well as substantive changes to the text. We extend our gratitude to CCEE Board member Jerry Bruni, and to the Bruni Foundation of Colorado Springs, for making possible the publication of this fourth edition.

Walter A. Koelbel, Jr., Chairman  
Robert L. Clinton, President  
Colorado Council on Economic Education  
June 2005

## Introduction to the First Edition

Our economic system is like the air. We aren't always conscious of it, but it touches virtually every aspect of our lives. Every day billions of economic decisions are coordinated in a system of voluntary exchange that provides us with an abundance of goods and services, creates jobs which provide us with the means to support ourselves and our families, and sustains a measure of prosperity and freedom unparalleled in human history.

The events of the twentieth century provided empirical evidence that “capitalism has been as unmistakable a success as socialism has been a failure” as ex-socialist economist Robert Heilbroner recently stated. It is abundantly clear that systems matter – economic systems as well as political systems.

The original communists believed that poverty, income inequality, oppression, and man's inhumanity to man were caused by a free enterprise economy. To save the world, they outlawed market forces. As a result, millions of people starved, priceless natural resources were squandered, the environment was ruined, sectarian violence was exacerbated, and squalid living conditions became the norm at a time when millions of people living in free enterprise economies were leaving this kind of grinding poverty behind.

The lesson is obvious. Those who lack a basic understanding of the operation of a free enterprise economy often, with the best of intentions, promote policies that inhibit market operations and do more harm than good. People living in free enterprise economies unquestionably have more liberty, a better quality of life, more wealth, more concern for the environment, and a higher level of charitable giving than people living under any other form of economic organization.

Ironically, teaching young Americans about our economic system has never received the attention in the curriculum of our schools commensurate with the importance of economic understanding. National polls indicate that most American students neither understand how a market economy functions nor grasp the most fundamental economic concepts underlying all economic systems.

Our students must understand not just the role of our economic system in allowing the standard of living they enjoy, but also its role in preserving their freedom. The institutions of a free society and those of a

free economy are inextricably linked.

If we value our freedom, it is our obligation to teach each new generation about the ideas underlying our economic system and our political system, and the relationship between the two. As Dr. Dwight Lee, Ramsey Professor of Economics at the University of Georgia says, “The most precious thing provided by a market economy is not the abundance of material wealth, but freedom. Those of us who have had the good fortune to spend our lives in economies based on markets have difficulty appreciating our freedom for the same reason it is always difficult to appreciate advantages one has never had to do without. Few people who benefit from markets and freedom recognize how precious their freedom is, and fewer still are aware of how crucially their freedom depends upon the institutions of the marketplace.”

Anyone truly interested in preserving liberty, improving the lot of the disadvantaged, or promoting the wise use of natural resources must have a basic understanding of the principles underlying a free enterprise economy. *Free Enterprise: Our Heritage, Our Wealth* provides a lively and easily understood introduction to those principles and will amply reward the efforts of those concerned enough to read it.

LaKay J. Schmidt, President 1976-1994  
Colorado Council on Economic Education  
July 4, 1992

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## -Chapter 1: *You're Rich!*

**H**ow much income does your family earn each year? Whatever it is, divide it by four. If your income were \$10,000 a year, dividing it by four would cut it to \$2,500. If your income were \$20,000 a year, it would be \$5,000. If it were \$80,000, it would be \$20,000. Now imagine getting by on that lower income – an income just one-fourth as great as you now enjoy. *One-fourth!* Could you do it? Could you survive on such an income?

People in countries rated as “middle-income” economies by the World Bank do – their incomes average less than one-fourth the level in the United States. (See Table 1, *on the next page*) Since the figures are adjusted for price differences in different countries, incomes per person in the United States pack roughly four times the purchasing power of incomes in the middle income countries, countries such as Ecuador, Mexico, Poland, the Philippines, and Thailand.

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*...incomes per person in the United States pack roughly four times the purchasing power of incomes in the middle income countries...*

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Now consider incomes in the United States compared to those in countries rated as having “low” incomes, countries such as Mali, Rwanda, and Sierra Leone. Their incomes (after adjusting for cost-of-living differences) average even less than *one-tenth* of the U.S. figure. Imagining incomes such as those requires that, having divided your income by four, you now take just two-fifths of that!

Feeling rich? You should be. If you live in this country, your income is almost certainly several times greater than that received by more than three-fourths of the over six billion people now on Earth.

What about the “high-income” countries? This group includes countries such as the U.S., Japan, Britain, and Germany. Of the large industrialized countries, the U.S. is the *wealthiest* country in the world! According to the World Bank, income per person in the world’s other large industrialized countries averages roughly four-fifths the U.S. level.

Table 1:

<i>International Income Thresholds and Data from Select Countries</i>	
Low Income Countries	Per capita income less than \$765
Middle Income Countries	Per capita income between \$766 and \$9,385
High Income Countries	Per capita income greater than \$9,386
Country	Per Capita Income (2003)
United States	\$37,500
Japan	\$28,620
United Kingdom	\$27,650
Germany	\$27,460
Poland	\$11,450
Mexico	\$8,950
Thailand	\$7,450
Philippines	\$4,640
Ecuador	\$3,440
Mali	\$960
Sierra Leone	\$530

Income numbers are adjusted for differences in cost-of-living. Therefore, \$530 in Sierra Leone is comparable to \$530 in the United States.

Source: *World Development Report 2005.*

Here is another way of gauging living standards – think about the highest wage you have ever earned. Was it as much as two dollars per hour? If it was, you were among the highest paid workers on Earth. If you worked 40 hours per week earning \$2 per hour you would make an income greater than that received by most of the world’s population.

All these calculations illustrate a simple point: we’re rich – *you’re* rich. Even the poorest people in the United States receive incomes many times greater than the average incomes of most of the people on Earth.

What accounts for this great prosperity? Why are incomes in one country high and in another country low? Why is it that people in the United States had an annual income per person of \$37,500, while the people of Sierra Leone, the poorest country on Earth, had an annual income per person of \$530? In this booklet we will examine the sources of our nation’s great wealth and see how our economic system works to make us so prosperous.