

New Texas World History rule helps high schoolers *SUPPORT free enterprise.*

MOMENTOUS NEW TEXAS HIGH SCHOOL WORLD HISTORY TEXTBOOK STANDARD

"(c)(18) Economics. The student understands the ... BENEFITS OF FREE ENTERPRISE IN WORLD HISTORY. The student is expected to: ...

(c)(18)(F) formulate generalizations on HOW ECONOMIC FREEDOM IMPROVED THE HUMAN CONDITION, based on students' knowledge of BENEFITS OF FREE ENTERPRISE IN EUROPE'S COMMERCIAL REVOLUTION, THE INDUSTRIAL REVOLUTION, AND 20TH CENTURY FREE-MARKET ECONOMIES, COMPARED TO COMMUNIST COMMAND ECONOMIES." *

This transformative clause does not list these points, but they sample its intent.

Economic freedom bettered the human condition because ...

- desire for private property disciplined profit-seekers to produce goods and services to meet society's needs, coordinating self-interest with the general welfare.
- productive consumption in the private sector created new wealth, lowered prices, increased purchasing power, and raised workers' living standards.
- free-market prices enshrined economic democracy by balancing supply and demand to maximize resource allocation in harmony with mass consumer sovereignty.
- entrepreneurship and decentralization engendered political democracy by fostering economic and social mobility, expanding the middle class, and broadening suffrage.

Free-market factors in the success of Europe's Commercial Revolution included:

- *Predictable law* – To calculate risks, potential investors had to know in advance how laws would apply in given situations.
- *Divided power* – Merchants prospered where a plurality of institutions shared sovereignty and no absolute political authority existed.
- *Mutual consent* – Business and political relations rested on contract, whose obligations neither party could unilaterally change.
- *Autonomous towns* – Towns were competing economic units, centers of middle class wealth, and foes of political absolutism.
- *Private property* – Commercial capitalism flourished where personal wealth was safe from arbitrary seizure.
- *Profit incentives* – Output rose when medieval price ceilings collapsed and where producers retained and reinvested their earnings.
- *Limited taxes* – Merchant capitalists resisted unpredictable or confiscatory taxes and favored taxation by consent alone.
- *Unrestrained commerce* – Political and economic entities were so small, weak, or diverse that distant sales amounted to free trade.
- *Uncontrolled markets* – Supply and demand, not traditional "just prices," set the terms of trade in the new, far-flung transactions.
- *New competition* – Facing guilds' regulations and higher production costs in towns, some merchants organized rural cottage industries.
- *Expanded credit* – To finance a venture, business obtained short-term loans by selling bills of exchange at discounts.
- *Interest payments* – To avoid anti-usury laws, purchasers justified as risk premiums their discounts of bills of exchange.
- *Combined resources* – Private joint-stock companies raised funds and spread risks for more ambitious projects.
- *More entrepreneurs* – Investors engaging in very risky but very profitable overseas trade diversified and insured their enterprises.
- *Rising bourgeoisie* – A wealthy urban mercantile middle class arose which favored representative government and constitutionalism.

Unlike free-market economies, communist command economies ...

- *raised prices and lowered productivity.* Without price competition with other producers in an industry whose production costs were lower, the cost of living remained unduly high and living standards therefore unnecessarily low.
- *retarded price changes to balance supply and demand.* Delayed adjustments caused shortages and surpluses while price changes awaited approval by central planners, prolonging uncorrected resource misallocation.
- *discouraged innovation.* Disapproval by the central authority certainly followed any loss of capital from unsuccessful risk-taking, but approval for managers who increased capital through successful risk-taking was problematical.
- *avoided responsibility for bad investments.* Central planning committees were harder to penalize than individual entrepreneurs or private companies. "Economic decision-making without punishment for failure is like religion without hell."
- *relied on inadequate knowledge of a few remote planners.* These were unfamiliar with the mass of detail and lacked expertise to handle unique local production problems as competently as the many on-site specialists in decentralized market economies.

Benefits of free enterprise in the Industrial Revolution included:

- *Employment of displaced farmers* – Farmers displaced by the Agricultural Revolution had no tools or marketable skills. They had known long hours, low wages, child labor, and poor working conditions for millennia on the farm. Factory jobs helped them survive by breaking guilds' remaining traditional monopolies on manufacturing, and paid better than any alternative employment.
- *Accumulation of new capital* – People created enormous amounts of new wealth during the Industrial Revolution because they could freely earn and keep their profits. Production outran consumption as they reinvested their profits in additional production rather than consume them. Industrial capitalism generated and sustained its own momentum.
- *Increased industrial productivity* – The Industrial Revolution was so productive that it financed its continued expansion through its own reinvested profits often even without (during its first 100 years) incorporating to sell stock, except for banks and railroads. Adequate capital was always available to develop promising new power sources, technologies, or manufacturing processes.
- *Rising real wages* – Prices of manufactured goods fell greatly. Workers' purchasing power rose greatly. Living standards went up. Reinvesting profits helped workers more than using profits to pay above-market wages, which would have slowed industrialization, decreased the number of jobs, and increased demand without increasing supply, thereby raising prices.
- *Broadened economic opportunity* – The basis of economic relationships shifted from privilege to enterprise. All could incorporate and patent. Poor but creative persons enriched themselves by developing new technologies and industries. The masses for the first time escaped grinding poverty. Immigrants bettered their own lot or their children's.
- *Enhanced social mobility* – The basis of social relationships shifted from birth to wealth. Social class membership became dynamic rather than static, open to rapid entry and exit. Much of the lower class moved into the middle class. Through private enterprise ethnic minorities rose socially despite majority group prejudice and discrimination against them.
- *Introduction of political democracy* – The basis of political relationships shifted from custom to consent. Capitalism increased the middle class's size and economic influence and catered to majority preference and popular demand. First the middle class and then the lower class won the right to vote. Majoritarianism brought mass political parties, electioneering, and appeals to the common man.

*capitalizations added here for emphasis