



ECON-EXCHANGE

Political Freedom, Economic Freedom and Prosperity

volume 9 number 1 Fall 2005

With this issue, we wish Rebecca S. Shepherd a very happy and well-deserved retirement. As many of our loyal readers know, Rebecca has been the outstanding executive director of the E. Angus Powell Endowment for the past seventeen years, and she was a founding editor of ECON-EXCHANGE. Ever onward, Becky!

I am pleased to be stepping in as the new executive director during a time of exciting changes at our organization. For starters, our new name – The Powell Center for Economic Literacy – reflects more precisely our mission to promote economic literacy among young people.

POLITICAL FREEDOM, ECONOMIC FREEDOM AND PROSPERITY

Freedom is nothing else than a chance to be better.
– ALBERT CAMUS

Steve Cobb, in the lead essay, identifies a link between economic growth and economic freedom in several former Soviet bloc countries. In nations where the government now protects political rights and civil liberties, free market economies are beginning to thrive. The people in these emerging markets have spoken with their demands for government structures that allow everyone “a chance to be better.”

Building on this connection between freedom and economic opportunity, Kate Featherston’s elementary students explore the opportunity costs for families that chose to join the westward movement of the 1800s. Martha C. Hopkins’ lesson for middle school students examines how our founding fathers worked together to create a structure of government that encourages and supports entrepreneurs. Jason D. Feller’s high school students engage in a lesson that focuses on the importance of private property, competition and limited government for the success of capitalism and the accumulation of wealth.

We hope you enjoy ECON-EXCHANGE. We welcome your response; please send us your ideas and tell us about your lessons. Understanding how incentives work, the Powell Center for Economic Literacy may even pay for your contribution.

ECON-EXCHANGE is a publication of the Powell Center for Economic Literacy. Each issue features an essay on a unique aspect of economics followed by three practical lesson plans.



BARBARA SCHNEIDER

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ECON-EXCHANGE is a semi-annual publication for K-12 teachers. Its mission is to promote economic education through insightful essays and exemplary lessons that elementary, middle and high school teachers may adapt for use in their classroom programs. Articles, lesson plans and handouts may be copied or reprinted without charge.

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The Link Between Economic Growth and Economic Freedom



STEVE COBB

Steven Cobb is an Associate Professor in the Department of Economics at the University of North Texas. He currently serves as Director of the Center for Economic Education and is Chair of the Department of Economics. Cobb has also been involved as a consultant and trainer for the National Council on Economic Education's Training of Trainers program in the newly independent states of the Former Soviet Union. He has conducted training programs in Russia, Estonia, Latvia, Lithuania, Poland, Belarus, Ukraine, Romania, Bulgaria, Kazakhstan, and Uzbekistan.

The feasibility of socialism as an alternative to the “laissez-faire” capitalism was the focus of a great deal of economic and political debate in the 1920s and 1930s. Interestingly enough, proponents of socialism described it as a system that would be, compared to capitalism, more just, more efficient, and more conducive to political freedom. The economic challenge to socialism at that time came from Ludwig von Mises (1881-1973), who argued that the lack of market prices in socialist economies would cause them to be less efficient than market economies in resource usage. His student, Friedrich A. Hayek (1899-1992), elaborated the economic critique, extending it also into the realm of political and ethical issues.

In the former Soviet Union and elsewhere, many governments that embraced socialism before and after World War II have now undertaken efforts to establish market economies. Their efforts to make this transition have reinvigorated the old debate over the relative merits of socialism and capitalism. The debate now is marked, however, by an interesting shift in thinking regarding the goals of efficiency, justice, and political freedom. The Soviet form of socialism, imposed on many millions of people over a period of seven decades, did not foster economic efficiency, social justice, or political freedom and civil liberties. Mindful of the failed Soviet experiment, many nations now working to develop market-oriented economies have begun to recognize the role that must be played by proper social and economic institutions.

While analysts often have focused on economic elements in the shift away from socialism, the evidence to date also shows that political and cultural elements are extremely important. People often overlook the fact that the economic reforms introduced in Russia in the mid-1980s were far from original. The economic components of Gorbachev's reform package had been introduced a number of times in the two decades before he came into office. The difference in the mid-1980s was that Gorbachev's economic reforms were combined with new provisions for democratization and greater openness in the Russian society. It was this potent combination of reforms that put an end to the Soviet Union and created new opportunities for the development of market-oriented economies throughout the old Soviet empire.

Discussion of the transition from socialism to market systems has often focused on key economic elements, including the following:

1. Liberalizing economic activity, prices, and market operations.
2. Reallocating resources to their most efficient uses.
3. Developing indirect, market-oriented instruments for macroeconomic stabilization.
4. Achieving effective enterprise management and efficiency, usually through privatization.
5. Imposing hard government budget constraints, which provide incentives to improve efficiency.
6. Establishing an institutional and legal framework to secure property rights, the rule of law, and transparent market-entry regulations.

These economic elements are crucial to the success of transition projects, but political and civil liberties are also crucial. The discussion of liberalization needs to include an analysis of improvements in civil liberties and political rights. There is no common blueprint for a transition from extensive central planning, on the Soviet model, to a more market-oriented economy. As a result, nations involved in this process today are following different strategies and proceeding at different paces. On average, the nations of Central and Eastern Europe and the Baltic states have moved forward more rapidly than the nations of the Commonwealth of Independent States (CIS) and Central Asia. This point was confirmed recently when ten of these nations joined the European Union. Data related to the transition process supports the link between economic freedom and development (see TABLE I).

IN TABLE I, nations involved in the transition process are divided into two groups. The first group includes the nine nations of Central and Eastern Europe and the three Baltic nations. The second group consists of Russia and the nations of the CIS, along with Central Asia. Four major industrial economies are also included for reference purposes. The table shows that the nations in the first group experienced a substantial increase in real GDP (*gross domestic product adjusted for inflation*) from 1993 to 2003. All twelve of them experienced large increases in real GDP; many of them saw GDP more than double. By contrast, five of the twelve nations in the second group saw their real GDP fall between 1993 and 2003. Seven nations in group two did experience an increase in real GDP, but their increases were much smaller than increases in the first group.

Clearly, nations in the first group are experiencing economic development more rapidly than the others. What might explain difference? One possibility is that countries in the first group have outpaced the others in respect to economic elements of the transition process. These economic elements are combined in an index number that is shown in column I 2 (*the Average Transition Indicator*) of TABLE I. Higher numbers indicate greater progress in respect to economic elements. And it is true that the two groups differ according to this measure. The top group (*Central and Eastern Europe and the Baltic states*) includes only one nation with an index below 2.8 (*Albania, at 2.5*). The second group (the CIS and Central Asia) includes only two countries that have reached an index mark of 2.8 (*Moldova and the Russian Federation*). And ten countries from the second group fall below 2.8.

Countries in the first group have made more progress than the others as measured by economic elements of the transition. Still, progress on economic elements does not provide a complete explanation for the observed differences in real GDP.

There are also major differences between the two groups in terms of political rights and civil liberties. Columns two through five of TABLE 1 (*Political Rights, Civil Liberties*) have been developed from the Freedom House's annual global survey of political rights and civil liberties. The indexes generated from this survey are used to construct a measure of freedom scaled from 1 through 7, with 1 representing most free. An examination of columns two and three indicates that countries in the top group have moved much more rapidly toward the protection of political rights. Columns four and five demonstrate a similar trend for civil liberties. In fact, the differences between the two groups in terms of political and civil liberties are much more pronounced than those related to economic elements.

The importance of progress in political and civil liberties can also be seen in patterns of foreign direct investment. Economic theory suggests that investment will flow toward an economic environment that is more attractive for productive activities. Free economies will attract more investment, while economies marked by high taxes, excessive regulation, biased enforcement of contracts, lack of legal recourse, insecure property rights, and monetary instability will deter investment (*Economic Freedom of the World*, 2004).

This generalization is borne out by differences shown in the 2000-2002 index of foreign direct investment. The first group of nations (*Central and Eastern Europe and the Baltic states*) has an average foreign direct investment index of 51.16, while the second group (*the CIS and Central Asia*) has an average index of 93.54.

The average for the second group does not include Turkmenistan, which has no index at all. This is a telling aspect of the data because Turkmenistan is the only nation in TABLE 1 that has an index of 7 (*least free*) in both political rights and civil liberties. This is a clear indication that in the absence of some progress toward political freedom and civil liberties, direct foreign investment is not even considered a real possibility. This is an important aspect of the connection between freedom and economic development because the availability of modern capital is a critical component of GDP growth and economic progress.

This essay is not intended to provide the final analysis of the process of transition. I hope rather to spark further investigation of the broad spectrum of factors that contribute to the process. The separation of academic disciplines tends to promote analysis focused on one particular aspect of problems. My intention is to emphasize the fact that economic development is the result of a combination of economic, political, cultural, and many other changes.

COUNTRY	POL RIGHTS		CIV LIBERTIES		REAL GDP (MILLIONS)		GDP GROWTH (ANN %)		FOREIGN DIRECT INVEST		AVG TRANS INDICATOR	POLITY
	1993	2003	1993	2003	1993	2003	1993	2003	1992-94	2000-02	1999	
Albania	4	3	3	3	2,000	6,124	10	6	120	76	2.5	Presidential parliamentary democracy
Bulgaria	2	1	3	2	12,628	19,859	-1	4	63	64	2.9	Parliamentary democracy
Croatia	4	2	4	2	18,427	28,322	-8	4	109	51	3	Parliamentary democracy
Czech Republic	1			2	48,050	85,438	0	3	50	42	3.4	Parliamentary democracy
Estonia	3	1	3	2	3,480	8,383	-8	5	83	38	3.5	Parliamentary democracy
Hungary	2	1	2	2	42,753	82,805	-1	3	66	41	3.7	Parliamentary democracy
Latvia	3	1	3	2	4,419	9,671	-15	7	90	49	3.1	Parliamentary democracy
Lithuania	2	1	3	2	6,370	18,213	-16	7	94	52	3.1	Parliamentary democracy
Poland	2	1	2	2	113,080	209,563	4	4	59	44	3.5	Presidential parliamentary democracy
Romania	4	2	4	2	31,860	60,358	2	8	98	83	2.8	Presidential parliamentary democracy
Slovak Rep	1			2	17,098	31,868	-4	4	64	47	3.3	Parliamentary democracy
Slovenia	2	1	2	1	17,093	26,284		2	53	27	3.3	Parliamentary democracy
Armenia	4	4	3	4	1,140	2,797	-9	14	122	99	2.7	Presidential parliamentary democracy
Azerbaijan	5	6	5	5	3,420	7,124	-23	11	135	96	2.2	Presidential/dominant party
Belarus	4	6	3	6	13,330	17,793	-8	7	31	56	1.5	Presidential
Georgia	4	4	5	4	3,269	3,937	-29	9	130	121	2.5	Presidential parliamentary democracy
Kazakhstan	5	6	5	5	21,443	29,749	-9	9	86	78	2.7	Presidential/dominant party
Kyrgyz Rep	4	6	2	5	1,974	1,737	-15	5	133	118	2.8	Presidential
Moldova	5	3	5	4	2,118	1,964	-1	6	37	110	2.8	Parliamentary democracy
Russian Fed	3	5	4	5	403,179	433,491	-9	7	40	33	2.5	Presidential parliamentary democracy
Tajikistan	6	6	6	5	0,931	1,303	-11	10	113	136	2	Presidential
Turkmenistan	7	7	6	7	7,919	6,010	-10	17			1.4	Presidential
Ukraine	3	4	3	4	54,664	49,537	-14	9	56	94	2.4	Presidential parliamentary democracy
Uzbekistan	6	7	6	6	10,759	9,949	-2	4	41	88	2.1	Presidential/dominant party
France	1	1	2	1	1498,708	1747,973	-1	0	6	14		Presidential parliamentary democracy
Germany	1	1	2	1	2361,175	2400,655	-1	0	3	9		Parliamentary democracy/federal
United Kingdom	1	1	2	1	1054,122	1794,858	2	2	4	3		Parliamentary democracy
United States	1	1	1	1	6925,773	10881,609	3	3	1	1		Presidential parliamentary democracy/fed

Should I Stay or Should I Go?



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Kate Featherston teaches fourth grade at the Collegiate School in Richmond, Virginia. She enjoys integrating economic concepts within her lessons throughout the year. She sponsors Cougar Cache, a student lending institution for classroom businesses.

Whether or not American pioneers were aware of it, economics was the driving force behind the westward expansion movement. At a time when America was still very young, citizens were gaining excitement about the opportunities the west offered. Some continued seeking religious or political freedom, some sought the promise of prosperity the west offered. What would motivate an individual or a family to leave home and face the dangers of traveling west? Would the benefits outweigh the dangers? In this lesson, students weigh first-hand the financial, physical, and emotional costs of picking up their belongings and moving west.

OBJECTIVES

- [] Students understand how American pioneers made choices regarding what to bring on their journey out west.
- [] Students learn how individuals provided for their families through the use of goods and services while traveling.
- [] Students learn about shortages and surpluses American pioneers faced on their journey out west.
- [] Students demonstrate their knowledge of learned economic terms by creating a board game.

TIME REQUIRED

four days

MATERIALS

- [] *If You Traveled West in a Covered Wagon*, by Ellen Levine
- [] Chart paper
- [] HANDOUT 1: *Should I Stay or Should I Go? – An Anticipation Guide*
- [] HANDOUT 2: *Role Cards*
- [] HANDOUT 3: *Surplus! Cards*



TEACHING ACTIVITIES

DAY 1

Should I Stay or Should I Go? – An Anticipation Guide

Before even introducing the concept of westward expansion, have students follow the directions to fill out the anticipation guide. This is a set of ten statements that can be related to traveling out west. Students either place a check mark or an *x* in the boxes, depending on whether they agree or disagree with each statement. This activity is not designed to have one correct answer to any statement. The goal is to get the students thinking about how they personally would react to some issues Americans faced in the mid 1800s.

Once students have filled in their own guide, have them pair up with one to two classmates and discuss their findings. Differing opinions will certainly emerge in this activity, making this a wonderful opportunity for students to practice respectfully disagreeing with or supporting their peers' opinions. Once everyone has had a chance to discuss his or her opinions in small groups, open up the floor for a class discussion about whichever statements seem to be “hot topics” among the students.



DAY 2

*Ready or Not, Here We Go!**A Wagon Packing Simulation*

Today, the students will experience first hand the task of preparing to travel west. Before beginning the simulation, have students think back to yesterday's anticipation guide. Discuss the fact that once Americans gained independence, we became a nation that provides citizens with choices. Have a piece of chart paper set up with two columns – Reasons & Opportunity Costs. Have students brainstorm a list of reasons that Americans might have traveled out west in the mid 1800s. (*Might include religious freedom, opportunities such as land & wealth, anticipation of a better life.*)

Introduce the term opportunity cost. Have students brainstorm a list of opportunity costs when the choice was made to move west. (*These will primarily be things that are left behind – some family members, possessions that aren't easily transported, the guarantee of clean water and current living conditions.*)

As a follow-up to this discussion, read the Introduction (p.5), What was the Oregon Territory? (p.6), and Why did some people want to travel all the way to Oregon (p.8) from the book, *If You Traveled West in a Covered Wagon*.

The handouts for this lesson plan can be found in the supplemental items section at the back of this book.

Have students pull their role cards from a hat. You will need to set this up using **HANDOUT 2: Role Cards**. Make sure you have the correct number of male roles and female roles before cutting apart the cards (*the children roles can easily be manipulated to balance out numbers*). Once everyone has their roles, have them sit at desks or tables with their “family members.”

Discuss economic terms goods, services, needs, and wants. On chart paper, have each family record what goods and services they can provide on the trail or at their destination. (*The husband will provide goods or services related to his job, the wives and children can get creative here. For instance, they might be able to mend clothes, provide entertainment, make games, and cook meals.*)

Instruct families to also record their anticipated needs and wants for the journey.
NEEDS. *protection, food that will keep, water, means of fire...*
WANTS. *family heirlooms, favorite toys, pets...*

Instruct each family member to now make a choice of only one “want” that they can bring in the wagon. Have families share their choices and their opportunity costs.

Read *What Would Your Family Bring in their Covered Wagon?* (p.20–22) from *If Your Family Traveled West in a Covered Wagon*. Discuss how accurate the families’ lists are according to the facts in the book.

DAY 3

Shortages and Surpluses on the Trail

In today’s lesson, students learn about the many shortages families faced while traveling west. Family members need to relocate so they are once again sitting together. Discuss economic terms shortage and surplus, and capital resource and natural resource. Have students brainstorm on chart paper a list of shortages and surpluses that would have likely been found on the trail. (*Shortages – clean water, food, supplies such as tools or pots... Surpluses – dust, grass, perhaps wild animals...*) Emphasize that there were many more shortages than surpluses on the trail. Have students further delineate this list by labeling each item as a natural resource or a capital resource. (*For instance – wild animals would be a natural resource, tools would be a capital resource.*)

Students now need to partner up (*does not have to be a fellow family member*) to play a trail version of “Go Fish!” called “Surplus!” Have students cut apart the cards from **HANDOUT 3**. Deal out the entire deck. Instead of saying “Do you have any 3s?” students must use economic vocabulary. They would say, “I have a shortage of water.” If the partner has any water cards he or she wants to give away, the transaction is completed. Once a partner has four of a kind, he or she announces, “Surplus!” and lays down the pile. The player with the most surplus piles at the end of the game is the winner.

Gather students as a class to review the economic terms learned this week. (*choice, opportunity cost, goods, services, needs, wants, shortage, surplus, natural resource, capital resource*) Have one student define the term and several support the term with trail examples.

DAY 4

Putting the Terms to Use – Game Time!

Today, students experience first hand the economic lessons that have been discussed all week. Students work in partnerships to create a westward trail board game. Working together, students need to make choices, weigh opportunity costs, and assess the needs and wants of their own board game.

- [] Each student board game must:
 - + have a creative title
 - + be neatly done with colorful illustrations and neat handwriting
 - + have a list of supplies needed (*dice, playing pieces*)
 - + have a set of instructions
 - + use at least 7 of the economic terms that have been studied as part of the situations.
- [] The situations on the board must be historically accurate. No modern day situations allowed!

EXAMPLES OF BOARD GAME SITUATIONS:

- [] You had a need for water. Unfortunately the water was bad. Lose 1 turn.
- [] You bought a surplus of bacon at the trading post and shared with your wagon train. Move forward 3 spaces.

Once students have met the minimum requirement of 7 economic terms in their situations, they may continue to create cards that do not use these specific terms if they wish.

EXAMPLES:

- [] You helped repair another wagon’s broken wheel. *Move forward 2 spaces.*
- [] You lost all of your tools when your wagon crossed the river. *Move back 5 spaces.*

CONCLUSION

Westward expansion in the mid 1800s was a very exciting, yet dangerous time in American history. Students are naturally drawn to learning about these brave pioneers who faced all kinds of dangers in order to improve their lives. Putting an economic spin on this movement in the classroom gives students the chance to stretch their knowledge beyond the typical facts known about the time. Not only will students see pioneers in a new light, they will also be able to apply economics and see how concepts such as choice and opportunity cost are a part of their everyday lives.

ECONOMIC CONCEPTS

Capital Resources. Equipment and structures that are used in the production of goods and services.

Choice. The by-product of capitalism, that allows individuals the opportunity to pick from a large group of alternatives (*also called economic choice*).

Goods. Items produced by firms to be sold to other consumers, other firms, or government.

Natural Resources. Land and other like resources such as water, forests, animals, and minerals.

Need. An economic good or service that is general considered required for everyday life, such as food, housing, education, and medicine.

Opportunity Cost. The opportunity given up when choosing between two alternatives, with the decision in favor of one opportunity being at the cost of the other. The opportunity lost or given up.

Shortage. Excess in the quantity demanded compared to the quantity supplied.

Surplus. An excess of the quantity supplied compared to the quantity demanded at a given price.

Services. Productive activities that are instantaneously consumed, (*ex: baseball game*).

Want. The goods and services people desire but are not necessary for their survival.



The Constitution: What Freedoms Did the Framers Want?



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Most of the original settlers came to America seeking freedom. They sought to secure it, after the Revolutionary War, through a legal framework described in the Articles of Confederation, which preserved sovereignty and independence for the states and set narrow limits on the authority of the Federal government. The delegates who met in 1787 to frame a new constitution wanted to create a stronger Federal government, but they also struggled with fears that a powerful central government would reduce freedom as it had been secured by the Articles of Confederation. Even as they sought to strengthen the Federal government, therefore, they also sought ways to limit its powers. In the end, they were willing to trade off some freedom, and give the Federal government enough power to hold the colonies together, and to raise adequate taxes to defend the country.

OVERVIEW

This lesson looks at the various freedoms the founding fathers wanted as they worked on the Constitution as well as the difficulty of coming to an agreement. It differentiates between political freedom, economic freedom, and civil liberties (*personal freedom*).

OBJECTIVES

- [] Students list a number of “freedoms” colonists wanted.
- [] Students explain the three different types of freedoms.
- [] Students describe dissatisfactions that colonists had which led to the revolution.
- [] Students define a trade-off and give an example of a trade-off the framers made.

TIME REQUIRED

Three to Four Days

MATERIALS

- [] Books such as these, by Jean Fritz: *Can't You Make Them Behave, King George?* (ISBN: 0698114027)
- [] *Sbb! We're Writing the Constitution* (ISBN: 0590-41201-9)
- [] *Why Don't You Get a Horse, Sam Adams?* (ISBN: 0808544853)
- [] For an online copy of the Constitution and the Bill of Rights: <http://www.law.cornell.edu/constitution/constitution.overview.html>
- [] TRANSPARENCY A: *Economic Freedoms*
- [] TRANSPARENCY B: *Political Freedoms*
- [] TRANSPARENCY C: *Civil Liberties*
- [] ACTIVITY SHEET D: *The Ten Original Amendments: The Bill of Rights*
- [] ACTIVITY SHEET E: *List of Freedoms* (1 copy per student)
- [] ACTIVITY SHEET F: *How Does the Constitution Encourage Us to Become Entrepreneurs?* (1 copy per student)

As they wrote the Constitution, the framers wanted to avoid some of the problems associated with English rule. How did they do this? They looked at the English economy, government, and legal system. They took what they liked and left the rest. They wanted more political freedoms such as free speech, the right to vote, and the right to assemble, as well as more civil liberties such as freedom of religion. They also wanted more economic freedom. In England at this time, there were strict rules about what a person could produce and how it could be produced.

The framers wanted the US Constitution to guarantee the freedoms they sought. They believed that unless something was forbidden by the Constitution, one could do it—unless one's state decided otherwise. This principle was spelled out in the 10th Amendment of the Bill of Rights (ACTIVITY SHEET D). Specifically, the framers wanted little Federal government involvement in their economy. In ARTICLE I, SECTION 8 of the Constitution, they listed the responsibilities of the Federal government and gave the states authority to make the laws regarding other issues.

The handouts for this lesson plan can be found in the supplemental items section at the back of this book.



TEACHING ACTIVITIES

DAY 1

Why They Came

Present the introduction of the lesson as historical background to the students.

1. Discuss with the students the following question: What were some of the reasons that settlers came to the colonies? List answers on the board. Most will be related to freedoms of various kinds.
2. Continue this lesson by reading or reviewing one of the following books by Jean Fritz. Ask the students to listen for freedoms that the colonists wanted and the dissatisfactions they had with being a British colony.
 - [] *Can't You Make Them Behave, King George?*
 - [] *Shh! We're Writing the Constitution*
 - [] *Why Don't You Get a Horse, Sam Adams?*

3. Have the students work in groups and list some of the colonists' dissatisfactions with British rule. Post and discuss their responses.
4. Explain that the framers of the Constitution had to consider carefully each freedom they wanted people to have and the benefits (*good things*) and costs (*things given up*) of each.
5. Write the term trade-off on the board. Define a trade-off as a choice that is not an all or nothing decision. A person trades-off, or gives up, some of something to get more of something else. For example, a student might trade off, or give up, some time watching television to spend some time playing tennis. Ask students to name some trade-offs the framers made. (*Example: Some framers were willing to trade-off some freedom for individuals to give more power for the Federal government.*)

DAY 2

The Freedoms They Wanted

1. Refer to the list of freedoms mentioned by students. To differentiate between political freedom, economic freedom, and civil liberties, use TRANSPARENCY A: *Economic Freedoms*, TRANSPARENCY B: *Political Freedoms*, and TRANSPARENCY C: *Civil Liberties (Personal Freedoms.)*
2. Explain that many of these freedoms were spelled out in the Bill of Rights. Read the Bill of Rights to the students or have them read it from ACTIVITY SHEET D: *The Bill of Rights*. Discuss the meaning of each Amendment.
3. Give the students ACTIVITY SHEET E: *List of Freedoms*. Ask the students: If you could only have ten of these freedoms, which ten would you choose? Explain that all of these freedoms are important. Read the directions and have the students complete the page by circling what they consider to be the ten most important freedoms.
4. Tell the students that they might have to make some trade-offs. Explain that a trade-off occurs when someone gives up some of one thing to gain more of another. For example, if they could only choose ten freedoms, they might choose to give up some civil liberties in order to obtain more economic freedoms.
5. Tabulate the freedoms that were selected and display the score. Categorize and discuss students' choices bringing out how the groups' choices differed and how within groups, individual choices differed and why. Help the students understand how difficult it might be to give up some of these freedoms.
6. Have each student write a short paper on "Why I wouldn't want to live in a country that didn't have these ten freedoms."



DAY 3

How Does the Constitution Encourage Entrepreneurship?

1. Teacher Background Information: In the us economy, goods and services are produced as a result of decisions made by consumers and producers. Entrepreneurs play a key role in bringing goods and services to market. Here are some elements of the us Constitution that make the United States a hospitable environment for entrepreneurs:
 - + Sound money that is acceptable in trade is important to entrepreneurs.
 - + A constitutional guarantee of the enforcement of contracts supports private property and thus encourages entrepreneurship.
 - + The government is authorized to provide important goods and services that businesses may not find it profitable to produce. Roads, schools, military, fire and police protection, and post offices are examples. (*Of course, taxes must be collected to pay for these services.*)
 - + Amendment 10 in the Bill of Rights says: The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people. This amendment gives a great deal of freedom to individuals.
2. Write the word entrepreneur on the chalkboard, and define it as someone who assumes the risk of organizing productive resources to start a business and produce goods and/or services. Brainstorm with students to create a list of entrepreneurs. Think of reasons why a person might want to become an entrepreneur.
3. Distribute a copy of ACTIVITY SHEET F: *How Does the Constitution Encourage Us to Become Entrepreneurs?* to each student. Explain that ARTICLE 1, SECTION 8 of the Constitution includes several provisions that create a supportive environment for
 - + a person who wants to exercise his or her economic freedom to start a business. Note that ACTIVITY SHEET F lists some of the tasks assigned to government by the ARTICLE 1, SECTION 8.
 - 4. Tell the students to pretend that they are entrepreneurs and have started new businesses and hope to sell their products and make a lot of money. Have the students read through the list on ACTIVITY SHEET F, and then write explanations of why certain items on the list might be valuable to them as entrepreneurs.
 - 5. When the students have completed their lists, review each item on ACTIVITY SHEET F and discuss the students' explanations. Their explanations may include the following:
 - + A common defense allows the entrepreneur to concentrate on business and not have to worry about a foreign invasion.
 - + In the early years of the republic, the Federal government protected new industries from foreign competition. More recently, the government has forbidden some imports of beef because of Mad Cow disease. Similarly, some plants may not be brought into the country because they may carry disease.
 - + Entrepreneurs can buy and sell across state lines without paying tariffs for passing through.
 - + When businesses fail, business owners do not have to go to jail merely for debt. People would be afraid to start a business if they thought they would go to jail if the business went bankrupt.
 - + All states use the same money. In Europe, until the Euro was introduced, each country used its own currency. Exchanging currency was expensive for European businesses to do.
 - + All producers must weigh and measure accurately; thus an entrepreneur can be sure that what he or she buys is the correct weight.
 - + Money in circulation is good and not counterfeit (*copied*). People would not want to be in business if they could not be sure that the money they were paid was "real."
 - + Post service make it possible for entrepreneurs to mail advertisements, products, and bills. Post roads make delivery of goods possible.
 - + Patents give inventors and entrepreneurs protection for their ideas. This allows them to profit from their ideas. The possibility of profit encourages them to invest their time and energy bringing new things to market.
 - + Courts help businesses protect their property rights and enforce their contracts.

ASSESSMENT

Review with students the various freedoms explored in this lesson, including political freedoms, economic freedoms, and civil liberties (*personal freedoms*). Have each student write a paper on "Why the founding fathers and I think these freedoms are important." Instruct them to include a paragraph for each category.

ECONOMIC CONCEPTS

Cost. Something gained or received; an advantage.

Benefit. Something given up or sacrificed; a loss.

Entrepreneurship. The ability of a person to assume the risk of business and uncertainty of the future to produce goods and services with the expectation of profits.

Trade-offs. Giving up some of one choice to have more of another, which seems more desirable.

This lesson is from Adventures in Economics and us History, Volume 2: A New Nation. For more information you can go to the EconFun website at <http://www.econ-fun.com>

The Role of Government in Capitalist Economies



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This lesson on capitalism focuses on the importance of private property and limited government. Too often, the connection between government and private property is overlooked by people. The U.S. economy operates within a rule of law that provides protection for private ownership of property. For many U.S. citizens, property ownership is the key to accumulating capital and building wealth. In some other countries, no such protection for private ownership of property exists, and citizens in those countries find it difficult if not impossible to accumulate capital and build wealth by legal means. In this lesson, students identify the role government plays in ensuring the success of capitalism and the ability of citizens to accumulate wealth.

(The lesson depends upon the distinction between command and market economies. For classes in which that distinction has not previously been introduced, teachers should introduce it explicitly here.)

OBJECTIVES

- [] Students analyze the role of government in command economies and capitalist economies.
- [] Students explain the various roles of government in capitalism.
- [] Students contrast “live capital” and “dead capital,” as defined by Hernando de Soto.

TIME REQUIRED

Two class periods.

MATERIALS

- [] HANDOUT 1: *Economic Terms and Discussion Questions*
- [] HANDOUT 2: *The Case for Capitalism*
- [] HANDOUT 3: copies of ECON-EXCHANGE lead essay by Steve Cobb, “The Link Between Economic Growth and Economic Freedom”
- [] Internet Access

TEACHING ACTIVITIES

DAY 1

Schedule your students to be in the computer lab in order to work on HANDOUT 1 Economic Terms by writing definitions for the terms. To complete HANDOUT 1, students should use the web site www.economist.com/research/Economics/alphabetic.cfm

After the students have completed HANDOUT 1, turn to the Discussion Questions. Use the discussion to identify the roles played by government in each of the two economic systems. In a command economy, the central planning authority controls economic resources and determines what will be produced. In a capitalist economy, producers and consumers participating voluntarily in market transactions determine what will be produced. The discussion also should highlight the importance of private property rights.

Producers in a capitalist economy own the factors of production, and they benefit or suffer losses depending upon the uses they make of what they own. Ownership encourages them to innovate and produce new goods and services in their pursuit of profits. If the new goods and services are attractive to consumers, new wealth is created as new transactions occur, and the standard of living goes up accordingly.

After establishing closure on main points from the discussion, assign the students to read HANDOUT 3, Mr. Cobb’s essay, *The Link Between Economic Growth and Economic Freedom*.

DAY 2

Begin by having the students complete HANDOUT 2, *The Case for Capitalism*, in order to assess their grasp of the concepts taught on DAY 1. Then discuss with the class how the government in market economies protects private property rights.

HANDOUT 2 ANSWERS:

- 1) government; 2) what will be produced; 3) market;
- 4) regulation; 5) product safety; 6) worker;
- 7) competition; 8) property; 9) innovate; 10) profits;
- 11) standard of living; 12) destruction; 13) workers

The handouts for this lesson plan can be found in the supplemental items section at the back of this book.



DISCUSSION QUESTIONS

1. How can you prove that property is yours?
(If the students need help here, ask them what occurs when they buy or sell a car. This should lead them to say the title of the car is transferred. Follow up by inquiring what other property requires the transfer of title.)
2. What would the effect be if the government did not maintain a system of property records?
*(This would hinder people wanting to transfer ownership of property. Without a system of records, it would be hard for the prospective buyer to be certain that the seller owned what he or she proposed to sell. Home ownership would suffer because it would be hard to obtain financing to buy property unless the transaction provided for a transfer of title. Property unaccompanied by a title would amount to what Hernando de Soto calls “dead capital” – an asset that an owner could not borrow against. With dead capital, owners of property cannot use the asset in question as collateral to finance other worthwhile economic endeavors. With this in mind, students should be able to grasp the meaning of de Soto’s term “live capital” – an asset for which an owner has a clear property title that could be used as collateral. Teachers: see Hernando de Soto’s book, *The Other Path*, Harper and Row, 1989.)*
3. In his article, does Mr. Cobb cite the need for protection of property rights? What else does he identify as critical to a country’s transition to a market economy?
(Mr. Cobb refers to establishing an institutional and legal framework to secure property rights. He also stresses the importance of political and civil liberties.)

CONCLUSION

The primary purpose of this lesson is to clarify for students the role government plays in establishing a framework for a capitalist economy. In countries like the United States, government plays only a limited role in determining what the market will provide. But the us government provides a legal framework in which property rights are established and protected, and this governmental role is critical to the success of capitalism. Without strong legal protection for property ownership, people could not enjoy the rewards generated by their own economic activity.



ECONOMIC CONCEPTS

Command economy. When a government controls all aspects of economic activity.
Capital. Money or assets put to economic use, the life-blood of capitalism. Economists describe capital as one of the four essential ingredients of economic activity (*the factors of production*), along with land, labor and enterprise.
Dead capital. Hernando de Soto’s term for property to which the de facto owners do not possess legal title; the lack of legal title prevents de facto owners from using property as collateral for other economic transactions.
Live capital. Hernando de Soto’s term for property to which the owners do have title; property in these cases can be used as collateral for economic transactions.
Capitalism. Capitalism is a free-market economic system built on private ownership of property.
Property rights. Rights to control the way in which particular resources will be used and to assign the resulting costs and benefits.
Regulation. Rules governing the activities of private-sector enterprises. Regulation is often imposed by government.
Collateral. An asset pledged by a borrower that may be seized by a lender to recover the value of a loan if the borrower fails to meet the required interest charges or repayments.

Supplemental Items



FEMALE ROLES: *white*

FAMILY 1

wife

FAMILY 2

wife

FAMILY 3

wife

FAMILY 4

wife

FAMILY 5

wife

FAMILY 6

wife

FAMILY 1

child

FAMILY 2

child

FAMILY 3

child

FAMILY 4

child

FAMILY 5

child

FAMILY 6

child

MALE ROLES: *black*

FAMILY 1

child

FAMILY 2

child

FAMILY 3

child

FAMILY 4

child

FAMILY 5

child

FAMILY 6

child

FAMILY 1

husband

FARMER

FAMILY 2

husband

DOCTOR

FAMILY 1

husband

CARPENTER

FAMILY 1

politician

FARMER

FAMILY 1

preacher

FARMER

FAMILY 1

husband

BLACKSMITH

bacon

bacon

bacon

bacon

water

water

water

water

wagon wheel

wagon wheel

wagon wheel

wagon wheel

healthy ox

healthy ox

healthy ox

healthy ox

medicine

medicine

medicine

medicine

harmonica

harmonica

harmonica

harmonica

pick axe

pick axe

pick axe

pick axe

flour

flour

flour

flour

lantern

lantern

lantern

lantern

buffalo skin

buffalo skin

buffalo skin

buffalo skin

HANDOUT 1

Should I Stay or Should I Go: An Anticipation Guide

NAME _____

_____ DATE _____

Directions. Read the following statements. Put a check in the box next to the statement if you agree with it, put an *x* in the box if you disagree. Think about why you agree or disagree with the statements as you complete the sheet. When you have completed this, get together with one or two other students and share your thoughts on the statements.

- I prefer staying at home rather than going other places.
- There are some things that are worth spending 4–6 months in close quarters with my family members.
- I would be excited to go on an adventure, even if I did not know everything that might be in store for me.
- I would be willing to risk my life and my family's life in order to have more land and a better life.
- If I had a freedom that was taken away from me (*like the ability to worship how I wanted*), I would want to relocate in order to gain that freedom back.
- If a piece of land is not officially claimed by a government, and I happen to get to it before anyone else, it should belong to me, no matter what.
- It's okay to cheat, lie, or steal if you need something to survive.
- It would be easy for many different families to come to one location and all get along.
- Having more money is worth any cost.
- Having freedom is worth any cost.

TRANSPARENCY A

Economic Freedoms

Economic Freedoms allow one to:

- choose one's occupation and change that occupation
- spend one's resources (*ex: time, energy, money*) as one chooses
- decide how much to work and how much to play
- join labor unions
- choose one's residence
- own property
- start a business

TRANSPARENCY B

Political Freedoms

Political Freedoms include the following:

- [] heads of government elected through free and fair elections
- [] legislative representatives elected through free and fair elections
- [] electoral laws protect citizens' right to vote
- [] people have the right to organize in different political parties
- [] political opposition is protected
- [] military forces governed by civilian official in the executive branch of the government and thus subject to democratic controls

TRANSPARENCY C

Civil Liberties

Civil liberties (personal freedoms) include:

- [] access to newspapers and other media not controlled by the government
- [] religious freedom
- [] freedom of assembly, demonstration, and open public discussion
- [] an independent judiciary
- [] rule of law prevailing in civil and criminal matters
- [] constitutional guarantee of equal protection of the law
- [] police under direct civilian control
- [] protection from political terror, unjustified imprisonment, exile, or torture
- [] open and free private discussion

ACTIVITY SHEET D

The Ten Original Amendments

The Ten Original Amendments to the US Constitution: The Bill of Rights. Passed by Congress September 25, 1789. Ratified December 15, 1791.

AMENDMENT I

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

AMENDMENT II

A well-regulated militia, being necessary to the security of a free State, the right of the people to keep and bear arms, shall not be infringed.

AMENDMENT III

No soldier shall, in time of peace be quartered in any house, without the consent of the owner, nor in time of war, but in a manner to be prescribed by law.

AMENDMENT IV

The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no warrants shall issue, but upon probable cause, supported by oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

AMENDMENT V

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the militia, when in actual service in time of war or public danger; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation.

AMENDMENT VI

In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the assistance of counsel for his defense.

AMENDMENT VII

In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise reexamined in any court of the United States, than according to the rules of the common law.

AMENDMENT VIII

Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

AMENDMENT IX

The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people.

AMENDMENT X

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

ACTIVITY SHEET E

List of Freedoms

Look over this list of freedoms. If you could only have 10 which ones would you choose? Circle those 10.

Economic Freedoms allow one to:

- choose one's occupation and change that occupation
- spend one's resources (ex: time, energy, money) as one chooses
- decide how much to work and how much to play
- join labor unions
- choose one's residence
- own property
- start a business

Political Freedoms:

- head of government elected through free and fair elections
- legislative representatives elected through free and fair elections
- fair electoral laws
- that people have the right to organize in different political parties
- a significant opposition vote
- freedom from domination by the military or... other powerful groups as they are subject to democratic controls

Civil Liberties (Personal Freedoms) include:

- free and independent media
- free religious institutions
- freedom of assembly, demonstration, and open public discussion
- independent judiciary
- rule of law prevail in civil and criminal matters
- population treated equally under the law
- police under direct civilian control
- protection from unjustified imprisonment, exile, or torture
- open and free private discussion

Activity Sheet F:
How Does the Constitution Encourage Us to Become Entrepreneurs?

The writers of the Constitution agreed that the government could do some things to be helpful, things that people needed but could not really do very well on their own. They spelled some of those out in Article 1, Section 8. They were specific about exactly what the federal government could and should do and what was left to the states.

Excerpts from Article 1, Section 8

What did the framers think the Federal government should be allowed to do?

1. *To collect taxes for the purpose of paying the nation's debts, providing for the common defense, and providing for the general welfare of the United States.*
2. *To regulate commerce with foreign nations.*
3. *To regulate commerce among the states.*
4. *To establish laws on bankruptcy. (They did not want to permit anything like the English debtor's prisons in the United States.)*
5. *To coin (or produce) money and determine its value.*
6. *To establish a common weight and measure system.*
7. *To punish people for counterfeiting securities or money.*
8. *To establish post offices and post roads.*
9. *To encourage "the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." (Today these exclusive rights are called patents and copyrights.)*
10. *To establish a system of courts to enforce laws.*

Directions: In writing, explain how any of the above might be helpful to someone who wanted to exercise his or her economic freedom to start a business, and become an entrepreneur.

HANDOUT I

Terms and Discussion

Refer to the dictionary of economic terms at economist.com to obtain the answers to the following.

ECONOMIC TERMS

1. *What is a command economy?*
2. *What is capital?*
3. *What is capitalism?*
4. *What are property rights?*
5. *Explain the function of regulation.*
6. *What is the purpose of collateral?*

DISCUSSION QUESTIONS

1. *Explain the role of government in a command economy.*
2. *How is the government's role different in capitalism?*
3. *Why does this change in role for government lead to a better economic well-being for citizens?*
4. *Is there a difference in these two systems in the approach taken to protecting older industries that produce goods/services that have been replaced?*

HANDOUT 1

Terms and Discussion Answers

To obtain the answers to the following questions, refer to the dictionary of economic terms at www.economist.com/research/Economics/alphabetic.cfm.

ECONOMIC TERMS

1. *What is a command economy?* When a government controls all aspects of economic activity.
2. *What is capital?* Money or assets put to economic use, the life-blood of capitalism. Economists describe capital as one of the four essential ingredients of economic activity (the factors of production), along with land, labor and enterprise.
3. *What is capitalism?* Capitalism is a free-market economic system built on private ownership of property, in particular, the idea that owners of capital have property rights that entitle them to earn a profit as a reward for putting their capital at risk in some form of economic activity.
4. *What are property rights?* Essential to any market economy. To trade, it is essential to know that the person selling a good or service owns it and that ownership will pass to the buyer. The stronger and clearer property rights are, the more likely it is that trade will take place and that prices will be efficient.
5. *Explain the function of regulation.* Regulations are rules governing the activities of private-sector enterprises, often imposed by government.
6. *What is the purpose of collateral?* Collateral is an asset pledged by a borrower when he or she takes out a loan. The collateral may be seized by the lender to recover the value of a loan if the borrower fails to meet the required interest charges or repayments.

DISCUSSION QUESTIONS

1. *Explain the role of government in a command economy.* The government will control the factors of production, and a central planning authority will determine the three basic questions of what to produce, how to produce, and for whom to produce.
2. *How is the government's role different in capitalism?* Possible answers include regulation – the government will place regulations on businesses for the purpose of ensuring product safety, worker safety, and fair competition. The other role for government is to protect private property rights. You may want to stress that the government does not determine what will be produced. That is the role of the market.
3. *Why does this change in role for government lead to a better economic well-being for citizens?* Possible answers: citizens and businesses privately own the factors of production. This private ownership will encourage innovation as owners will pursue potential profits. The creation of newer goods and services will lead to new firms and new jobs. This change will enable the economy to be more efficient and increase the standard of living for the citizens. (*If time permits, this discussion could be expanded to include Joseph Schumpeter and his concept of creative destruction*).
4. *Is there a difference in these two systems in the approach taken to protecting older industries that produce goods/services that have been replaced?* Students may respond that a command economy may be slow to change to new technology and will be reluctant to phase out older industries in order to protect new jobs. In capitalism, new industries are encouraged to form and develop. New jobs and new job skills will constantly be created. Occasionally, political pressure to protect the older industries will be applied by workers who will lose their jobs when the older industries are no longer profitable and are forced to shut down.

HANDOUT 2

The Case for Capitalism

ECONOMIC TERMS

1. A major difference between a command economy and capitalism is the role of _____.
2. In a command economy, a central planning authority has the power to determine _____.
3. In capitalism, the _____ will determine what will be produced.
4. One limited role for government in capitalism is to protect citizens through the _____ of businesses. This is done to ensure _____ safety, _____ safety, and fair _____.
5. The other role for government in capitalism is to protect _____ rights.
6. This protection is important because it encourages entrepreneurs to _____ and keep the _____ of their inventions because they are protected by copyrights and patents.
7. With private property rights and the pursuit of unlimited profits, entrepreneurs will innovate and create new products and firms, thus raising the _____ for the country.
8. The creation of new goods and new industries eventually lead to the _____ of older industries, but _____ in industries that die out will eventually obtain new jobs from this “creative destruction.”

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