# The Basics of the Economy

The American economic system, often called a Market System, allows for a significant amount of freedom as to what is produced and what is consumed. In this chapter we will examine the market system, how it operates and how it has developed in the United States. We will also look at other types of economic systems, and the ways in which they can be compared with a market economy.

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The founders tried to craft a political system that provided balance between order and freedom. A study of the American political system alone, however, does not tell the entire story of the liberties that Americans enjoy. The American economic system, often called a Market System, allows for a significant amount of freedom as to what is produced and what is consumed. It has provided general economic prosperity, with several notable exceptions which we will study. In this chapter we will examine the market system, how it operates, how it has developed in the United States, and look at its weaknesses and strengths. We will also look at other types of economic systems, and the ways in which they can be compared with a market economy, and the role that technology and trade have played in the economy.

The study of economics is the study of the choices people make, the actions people take, and the policy decisions that affect those wants and needs. Many of these choices are made individually; others are made collectively to create a community’s economic system. If the goods and services people wanted and needed were as readily available as dirt or air, there would be little need for people to make choices about what to produce and what to consume and therefore no need to study economics. Under current distribution methods, however, there simply are not enough resources, food, and services to meet all the needs and wants of people and nations and the result is scarcity. In this book, scarcity is defined in several different ways. In some cases scarcity means not enough of the basic levels of food, clothing, and shelter necessary to sustain life. In others, scarcity is the inability to immediately satisfy all the wants and needs of the people. An important phenomenon that exists in modern societies like America is that the more access to goods and services people enjoy, the more they desire. In other words, scarcity is to some extent determined by one’s current economic condition coupled with the human desire to have more and pursuing one’s own self-interest.

In order to deal with the problem of scarcity, people are required to make economic choices. It is important that goods and services are produced to satisfy peoples’ wants and needs. Therefore, institutions are organized to produce the goods and services people desire and to distribute those goods and services. Historically, three types of economic strategies have been employed to ensure correct levels of production and distribution and to solve the problems associated with scarcity. These three strategies are generally referred to as the traditional, command, and market.

The basic characteristics of a traditional economy developed around family and social relationships, with families producing the same goods and services for generations and distributing those goods and services through those same relationships. It was these kinds of traditional institutions that were most evident in hunting and gathering societies or in feudal societies based on heredity. Native American communities, prior to the arrival of European traders, were good examples of a traditional economy at work. Traditional economic systems served a purpose and were often successful but they tended to work most effectively when conditions remained static or constant, and found it difficult to adjust in times of social and economic upheaval or change. This lack of flexibility is one explanation as to why Native American societies were so deeply affected by the arrival of the Europeans as they disrupted traditional production and trade patterns.

The basic characteristics of a command economy include some form of “economic authority” to determine what is produced and how it is distributed. A command economy often is effective in requisitioning the finances and labor necessary for projects beyond the scope of the individual; such as the building of roads, bridges, and irrigation systems. A command economy also allows for, and directs economic change; such as the industrialization of the Soviet Union under Stalin or China’s Great Leap Forward under Mao. Command economies can be efficient in dealing with changing social and economic conditions and in gathering resources to meet an economic need, but they often severely restrict freedom in the marketplace.

A market economy relies on the free exchange of goods and services and the laws of supply and demand to determine what is produced and how it is to be distributed. People are free to choose what they will produce and what they will consume and the market system responds to reward or punish those decisions. This kind of system allows a great amount of individual freedom of choice, provides an incentive to make the right economic choices, and deals well with changing social and economic conditions. Unfortunately, it also allows people to engage in what may be considered greedy or corrupt practices in an effort to achieve economic success.

## The Market System

In 1776, the same year as the Declaration of Independence, Enlightenment philosopher Adam Smith published An Inquiry into the Nature and Causes of the Wealth of Nations. In his book, now more commonly referred to as The Wealth of Nations, Smith examined the emerging market system, and tried to explain how it operated. Smith, along with Karl Marx and John Maynard Keynes, has been celebrated as one of the most prominent figures in economic history. He is also considered one of the fathers of modern capitalism.



According to Smith, it is a “self-love” or “self-interest”—a desire to make a profit—that drives the market system. This idea of economic self-interest may be referred to simply as “incentive.” This incentive is a powerful motivator in encouraging people in a market system to work and create. As Smith said, it is “not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner,” but rather the butcher, baker, and brewer do what they do in an effort to satisfy their own self-interest. If they satisfy others needs at the same time, that is the miracle of a system based upon free exchange.

As many people make decisions and choices about what to produce and what to consume, and in the exchange process seek to fulfill their own self-interest, everyone in the exchange benefits and the general standard of living rises. It is important to understand that the notion that a free market is a system that runs on greed is incorrect. Self-interest or self-love is not the same thing as greed, especially unbridled greed rooted in pride. Those people greedy for wealth and power are generally in favor of legal changes that destroy property rights and markets. In modern industrial societies, the tendency toward self-interest encourages manufacturers to increase productivity in an effort to maximize profits. This increased productivity is possible, according to Smith, because of an accumulation of capital investment, which requires savings on the part of society and investing a share of the profits on the part of business. Additionally, it requires an ever finer division of labor where the production process is divided into separate parts and each part is performed by a practiced laborer.

Smith also explained how the market system provided an orderly solution to the problems of production and distribution. First, the motive of self-interest creates the necessary engine to put the system of production to work. Second, the changing desires of society guide what and how much was produced. Smith called this guiding mechanism the “invisible hand,” but it is now most often referred to as the Laws of Supply and Demand. And third, competition in the marketplace prevents producers from charging more than the market price for goods and services. If the price of a good became too high, others would join in production thus lowering prices and profits.

The law of demand states that as prices rise, the quantity consumers demand goes down. The law of supply states as prices rise, the quantity suppliers are willing to produce goes up. These two laws, interacting with each other in the market system, determine what goods are produced and how much those goods will cost. Greater demand will push prices up and encourage more production, and as supply cannot keep up with demand, it pushes prices up further. Less demand and increased supply will drive prices down and discourage production. Surpluses and shortages occur, and those adjustments push the market to an equilibrium price (the price at which the same quantity is being demanded as is being supplied).



In this interaction between supply and demand, the consumer ultimately determines what is produced. If demand increases, producers will increase production to meet those demands. This principle is known as Consumer Sovereignty because the consumer becomes the all-powerful director of the market. Another result of the interaction between supply and demand is a general efficiency in how resources are used. Abundant resources cost less and are used more, while scarce resources cost more and are used less. Higher prices and profits encourage more competition and competition normally reduces prices and profits.

The free market system, often called capitalism or free enterprise, has several strengths:

* First, it operates within an atmosphere of freedom, both in what labor is performed and what is consumed, thus offering participants a great amount of personal satisfaction.
* Second, it provides a tremendous incentive to work and to create.
* Third, it takes advantage of the miracle of exchange, or the idea that when the system is allowed to operate freely, every exchange results in a higher standard of living (again tied to incentive).
* Fourth, it works in harmony with basic human nature as the search for the fulfillment of individual wants and needs (self-interest) becomes a natural incentive to work and create.
* Fifth, it works in a natural way to allocate resources, scarce resources cost more and are used less, plentiful resources cost less and are used more.
* Finally, capitalism, or the free market, controls prices and profits through the natural laws of supply and demand.

Despite these strengths, and the exponential growth countries like the United States who practice a form of capitalism have experienced, capitalism does have weaknesses. Some of these would be the unequal distribution of wealth, economic freedom that allows for greed, dishonesty and threats to economic virtue, price instability, and production instability. Some of these weaknesses will be explored in greater depth in Lesson 8.

In a purely capitalist economy, there is little if any government regulation. This is usually described as “laissez faire” capitalism, Translated as “leave it alone.” Few, if any, nations practice pure capitalism and the United States is no exception. The American economy is sometimes referred to as a regulated capitalism or free market system. Even though government regulations can have a profound influence on economic growth, the growth and complexities of the economy can also have a profound effect on the need for government regulation. As the economy has become larger, more complex, and more national and international in its scope, the temptations to exploit economic opportunities in a negative way have also increased. Not all government regulation and involvement in the economy has come as a result of this declining economic virtue, but declining virtue has been a contributing factor.

Another tension embedded in a capitalistic system is the question of where do the positive characteristics of initiative and incentive end and the negative characteristics of greed begin.

Profit motive–the desire for financial gain as an incentive in economic activity–drives companies to try and control the market. Examples of controlling the market include the elimination (buying out) of competition and the unnatural and/or unlawful circumvention of supply and demand. When a company controls the market, their profit margin and profit stability are optimized.

However, there is also a lot of risk in starting a company, so the government issues Copyrights and patents in order to create temporary monopolies that protect and encourage new companies and individuals. While these Copyrights and patents help new companies, they can also prevent the laws of supply and demand from freely. The monopolies that are created by Copyrights and patents can also result in increased costs and hardships to workers and consumers. Additionally, the opportunity for exploitation and corruption increases.

## Socialism

There have been many different economic models that have been created to solve the problems existent in capitalism. Karl Marx, a prominent critic of capitalism, laid the foundation for socialism. He felt that capitalism distributed wealth unequally, gave political and social power to too few, rewarded the workers of a company much less than the owners of a company, and frequently created wasteful surpluses and shortages of goods and services. Additionally, Marx criticized the greed of the bourgeoisie (ruling classes) that caused the suffering of the proletariat (laborers).

Marx suggested an alternative plan that has come to be known as Marxism. It is important to note that Marxism is not socialism, but rather a strategy towards it. Not all socialists are Marxists, but all Marxists are trying to move towards socialism. In a socialist economy, property is owned publicly by the people or the state. This is sometimes referred to as collective ownership. The basic economic questions under socialism are answered not by the laws of supply and demand but through a command economy where economic decisions are made by government bureaucracies. Socialist societies (like the Soviet Union under Stalin or China under Mao) are famous for the five-year plans where goals are set and resources are allocated. The goals tried to create economic equality; provide security for jobs, health care, and finances; and transform static, tradition based, agricultural economies into modern industrial economies. It should be noted that there are similarities between Marxist socialism and the “command” strategy; however, Marx’s plan was developed specifically as a response to capitalism.

Socialism has its strengths, and its philosophy does offer advantages where the market system doesn’t. Many democratic countries, particularly in Europe, have chosen elements of socialism in their economic policy. Socialism facilitates a collective response to collective problems. It provides an efficient mechanism to bring a nation’s total economic capacity to bear against economic shortages. It offers solutions to the most glaring weaknesses of capitalism. And, lastly, its goals are to bring about economic equality, security, and support for a society’s weakest members.

Socialism has its weaknesses as well, though. With few direct personal economic rewards in a socialist system, there is less incentive to work and produce. The people who live under a socialist system have limited or no choices in terms of what to produce and what to consume. Also, since the system has seldom achieved the stated ideal of equality and security and since total political and economic controls are often required to impose and maintain a socialist society, the governments that manage socialist systems can be repressive in nature. Finally, under pure socialism, individual ownership and management of property is replaced by state ownership and state or democratic management of property. The agency of man is thus restricted and the opportunity for development along with it.

The term communism can be misused as a synonym for socialism. Communism refers to a socialist economic system combined with a totalitarian (dictatorship) political system.

Under communism, the command system is highly developed and often repressive. In today’s world the two most prominent economic systems are socialism and capitalism. However, virtually no society practices a purely socialist or purely capitalist system. Although both socialism and capitalism contain some residual elements of a traditional economy, they are generally based on some combination of command and market economy strategies.

The choice between economic systems is sometimes framed as a planned economy or an unplanned economy. But it is also important to ask the question “who should plan”? Should a mastermind, a state bureaucracy, or elected politicians make decisions about what should be produced, how it should be produced, and by whom it should be produced? Or should each individual be able to plan in accordance with their own dreams and goals? As each individual makes their own plans in accordance with their self-interest, the invisible hand—the market forces of supply and demand—guides the individual to act in the interests of others. If you are to become wealthy in a free market economy, you must come up with a good or service that others are willing to voluntarily buy—even at the expense of other desires.

## The United Order: An Early Church Economic Experiment

And the Lord called his people Zion, because they were of one heart and one mind, and dwelt in righteousness; and there was no poor among them.

Nevertheless, in your temporal things you shall be equal, and this not grudgingly, otherwise the abundance of the manifestations of the Spirit shall be withheld.

The United Order was an organization through which the Saints in the early days of the restored Church sought to live the law of consecration. Individuals shared property, goods, and profits in accordance to their wants and needs. In the scriptures, especially in the Doctrine and Covenants, the Lord outlines a plan that addresses the weakness of both capitalism and socialism. It incorporated elements of command and market economies.

After the Church was restored in 1830, one of the first revelations to Joseph Smith was about the law of consecration and the order of stewardships.

This revelation instructed members to consecrate their properties to a presiding bishop, who would then assign out stewardships over properties and businesses that would enable the support of families. Surpluses from production were to be for the benefit of the needy and the expenses of building up the kingdom: “And if thou obtainest more than that which would be for thy support, thou shalt give it into my storehouse.” All Saints were expected to be industrious and contribute to the working of the whole, to work together in equal measure, and to “not be idle; for he that is idle shall not eat the bread nor wear the garments of the laborer.”

The law of consecration and stewardship came to be known as the “United Order” and was practiced to varying degrees by early Latter-day Saint communities in Illinois, Iowa, and Nebraska. The United Order was based on four key principles: first, that the earth is the Lord’s and all that man possesses belongs to Him; second, the individual voluntarily enters into covenant to consecrate his time, talents, wealth, and property to the kingdom of God (by deeding his property to the bishop); third, the Church deeds back to the steward property to maintain the family, where “every man equal according to his family, according to his circumstances and his wants and needs” (D&C 51:3); and fourth, the surplus balance of production is given to the bishop’s storehouse, from which the bishop is authorized to give to the poor and needy.

In the early 1870s, Brigham Young began organizing community-wide United Orders of Enoch. Over a hundred such communities were established. Each person was asked to contribute his economic property to the community. Every able-bodied adult was given an assignment or stewardship necessary for the functioning of the community—to plant crops, prepare meals, sew clothing, teach children, build houses, handle livestock, nurse the sick, and so on. Participation was voluntary in this communal way of life, and private property, as well as the focus on the individual’s contribution and value, was maintained. Motivation for participating in the community was love of God, love of neighbor, and the desire to be obedient. The ideal was equality, the elimination of poverty, and the self-sufficiency of the community in a cooperative venture.

The communities practicing this type of economic lifestyle were short-lived. The United Order was suspended, cooperative businesses closed, and the experiment ended. Over the following century, Church leaders were inspired to institute the law of tithing, the law of the fast, and the Church welfare program. These programs and doctrines share many of the same principles of the United Order, but do not require or expect full consecration as those communities did in the early Church.

It is significant that love, not financial wealth, is the ruling motivation for the United Order. This means that for most a change in attitude or heart would be required to live the United Order. But in the Lord’s plan, this change is voluntary and individual. Love and service to others is a key principle in the United Order, but there is also an underlying attempt to fulfill self-love by allowing for personal choice and fulfillment in a system where faithful participation brings the eternal blessings of God. This is a significantly different kind of “self-love” than Adam Smith described. The United Order creates a sense of ownership, incentive, and responsibility, but also creates a type of earthly equality. Needs and wants are met and freedom of choice is maintained, but full economic freedom is restrained by a higher standard of self-interest—virtue.

Here is a chart that compares the motivations and structure of these three types of economic systems—capitalism, socialism, and the United Order.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Capitalism | Socialism | United Order |
| Who owns or controls the property? | Corporations, Businesses, Individuals | The “state”, The “people”, The collective ownership of property | Corporations, Businesses, Individuals |
| How are the basic questions answered? | Through the free exchange of goods and services directed by the laws of supply and demand | Through government agencies and bureaucracies, state planning five-year plans | Through the free exchange of goods and services directed by the laws of supply and demand with priesthood direction for community projects |
| What motivations draw people to accept the system? | * Desire for wealth and profit
* Desire for economic freedom
* Desire to work and create
 | * Desire for economic equality
* Desire for economic security
 | * A love of God
* A desire to be obedient
* A love of neighbor
* A desire to work and create
 |

## Economic Growth in the United States Through the Market System

For most of its history, the United States has practiced a form of the market economy. In the early years of the British colonies, nothing traveled faster than a horse. Communication was limited. There had been little innovation or invention for centuries in that front, and most people remained in the same economic station for generations. The majority of Americans worked long hours for just enough to live. The average life expectancy in America was about 36 years.

The English colonies operated under mercantilism, which depended on the colonies to provide raw materials and markets. They would then be created into goods and sold back to the colonies, with the main goal of funneling wealth back into the national treasury. Colonists came to the New World with the expectation and promise of owning land. In fact, most saw their journey to the colonies as an opportunity to own property and improve their economic and social position. The abundant resources of the colonies fostered the development of market opportunities. In contrast with much of Europe, where many resources were either used up or heavily controlled, the American continent was teeming with wildlife, fish, timber, and productive land.

As the colonies and their production grew, they began to push back against the mercantilist system, the regulations and limitations of the British monopolies that enforced them. Puritan religious beliefs helped foster the idea of self-interest and influenced economic thinking. Many saw success as an indication of salvation in the next. Their belief in predestination also made worldly success important as an evidence of God’s favor.

There were brief experiments with other types of economic practices in the colonies. In the Carolinas, there were attempts to replicate the feudal system of peasants and lords that had been the practice in much of Europe. The Pilgrims initially practiced a type of socialistic communalism, with all lands and profits held in common. After the first year of settlement, nearly half of the Pilgrims had perished. Governor William Bradford wrote that common ownership had created “much confusion and discontent and retard much employment that would have been to their benefit and comfort.” The system of forced redistribution among the settlers bred resentment amongst the survivors. After several years of starvation conditions, the settlement charted a different course.

In an attempt to raise as much food as possible, Bradford assigned every family a parcel of land, doing away with communal ownership . As a result, the colony became more prosperous. Individual families became more industrious and more personally invested in economic success.

The idea at the heart of a free market economy was expressed valiantly in just one part of one sentence of the Declaration of Independence. “Men … are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness.” If men have the right to life from God, then they must have the right to sustain life and the rights to the fruits of their labors, or in other words, the right to pursue happiness. Some modern economists believe that the right to property and the enforcement of property rights is the key institution that supports the successful establishment of a free market economy..

Despite these natural incentives toward a market system, there is no real requirement that America practice capitalism in the Constitution. There are, however, certain constitutional components that reinforce capitalistic attitudes. Amendment V states “Nor shall any person be … deprived of life, liberty, or property without due process of law.” Therefore, the Constitution protects private property ownership, a ruling principle in capitalism. In Article I, Sec. 8 the Constitution promotes “the Progress of Science and useful Arts” through copyrights and patents. Therefore, the Constitution guarantees the rights of artists and inventors to not only own their intellectual creations but to enjoy the economic benefits derived from those creations. It would be very difficult, without some major amendments to or reinterpretations of the Constitution, for socialism to be practiced in America.

The Constitution was critical to the development of a successful market economy. It secured property rights so entrepreneurs could keep their profit. It promoted rule of law so that sudden, radical changes in the legal system were less likely and less harmful. It also limited the federal government’s ability to intervene in the economy. Through its commerce clause, the Constitution supported free trade between individual states. In short, the Constitution codified and helped establish the conditions of individual economic freedom.

After the establishment of the new government under the Constitution, the American economy grew, though the nature of the economy remained virtually the same. Most Americans were farmers, and those who were not farmers engaged in small business enterprises that produced goods for local markets—neighbors trading with neighbors. Most businesses employed one to five employees so there was direct communication between the owners and the workers. Most businesses represented very little capital investment, so they could be started and stopped with little effect on the business. Unregulated, laissez faire capitalism seemed natural and acceptable in these conditions. There were few large-scale abuses of workers and/or consumers because there were no large-scale businesses or markets. If there were local abuses these could usually be worked out by individuals at the local level. Government regulation of the economy seemed unnecessary.

During this early period, the government tried to address its own constitutional role in the economy and other generalized economic issues. One of the first issues addressed was the government’s role in regulating money and banking. People were wary of a federal or national bank, and in the first 100 years after the constitution, two nationally chartered banks were created—both were disbanded. Additionally, they had to decide if they would move to notes (paper money) or continue with specie (coin). While they would briefly use notes in wartime, paper money was seen as immoral with no real value, so they continued using gold and silver coins because they had a seemingly more intrinsic value.

Another issue addressed was the national government’s role in promoting and financing transportation projects. While roads, canals, harbors, and railroads were all necessary for economic growth, these projects were often beneficial to specific regions of the country. A person in Georgia would probably never directly benefit from a road in New York, so taxing them would seem unfair. However, roads are too expensive for each individual to make their own. The national government decided that they should encourage state or private development of canals, roads, and railroads, but should not engage directly in owning, building, or maintaining them. Because they were seen as important for the national defense, exceptions were made for some postal roads as well as river and harbor improvement projects.

The final major issue was the national government’s role in encouraging and/or regulating business. Tariffs (additional taxes placed on foreign goods) encouraged American business, which was seen as positive; however, it also made things more expensive because there wasn’t the competition from foreign markets, which was seen as negative. Bounties (money paid to farmers by the government for certain goods) were intended to encourage farmers to grow lots of one crop and sell only that. Unfortunately, this also resulted in higher food prices for consumers. Despite the outcomes, these were attempts to encourage, not regulate, commerce. Even the conflicts between labor and industry were seen as disputes over private property which allowed the government to step in without the feeling of regulation as long as it was through the due process of law.

After the Civil War the American economic system changed dramatically. Businesses evolved from small, local enterprises with little capital investment, into large, national enterprises with enormous capital investments. These large industries were headed up by powerful entrepreneurs, men like Andrew Carnegie (steel), John D. Rockefeller (oil), Jay Gould (railroads), J. P. Morgan (banking), and Gustavus Swift (meat packing). The innovation of new technologies, especially railroads, and the growth of steel, oil, coal and electricity, enabled the creation of industrial machinery.

The connections fostered by the development of the railroad created a national mass market. It also supported the creation of department stores such as Sears, Roebuck, Montgomery Ward, and Macy’s. The invention and introduction of new products like indoor plumbing, telephones, chewing gum, deodorant, corn flakes, toothpaste, cosmetics, safety razors, and so on created new consumers and new industries. Along with this development came the birth of modern advertising, which quickly became essential to American life. These new products were produced in new ways, and utilized new strategies of production that were very different from the artisan production of the pre-Civil War era.

The economies of scale (things are cheaper the more they are produced)helped foster big businesses. The formation of assembly-line production was the ultimate expression of Adam Smith’s “division of labor.” Horizontal combinations combined businesses that produced the same or similar products. Vertical combinations combined all the business activities of a single product from the acquisition of raw materials through sales. Out of these combinations came monopolies, trusts, and holding companies developed specifically to eliminate competition in the market place and maximize profits.

With their growth in size and economic power, businesses evolved into institutions of national influence. These monopolies created great profits for stockholders, but also prevented the laws of supply and demand from creating competition. They also exploited and created hardships for workers and consumers. Government would have to play a larger role in order to guarantee economic freedom and opportunity. This movement, called Progressivism, will be examined in Lesson 8, while the complete breakdown of supply and demand in this new industrial order will be studied in Lesson 9.

## Technological Changes Through Economic Freedom

Technological change gives consumers more options and makes workers more productive. American workers today can produce more per hour of work than any American previously could. For example, consider Daniel Boone’s standard of living as a pioneer in the mid to late 1700s. His father was a nail maker, and when Daniel first started making nails he could only make 50 nails after a long day of hard work. His father, however, could make 200 nails in a long day. Today, nail industry workers are able to make many hundreds of thousands of nails in fewer hours.

Workers in nineteenth century America, even children, had to work very long hours to supply the bare necessities, and had an average life expectancy much lower than today. Most workers could not produce enough to support their families by themselves.

The link at the end of the paragraph goes to the World Bank table, which puts the growth of the United States economy into comparative perspective. It shows GDP to demonstrate the standard of living for various nations. GDP (gross domestic product) is the measure of the market value of all the goods and services produced by citizens of a country in a given year. The U. S. standard of living in 1840 was comparable to Tonga’s standard of living today. The output per person of the U. S. economy at the time of the nation’s birth was comparable to poverty stricken nations of today. The U. S. GDP, on average, rose by 2.1 percent each year during the second half of the twenty-first century. At this rate, the amount of goods and services produced per person each year doubles about every 33 years.

The United States has had greater economic success than other countries for a variety of reasons. A prominent reason, though, is the use of technology. Across the world we see that in societies where technology has been adopted and workers have the educational levels necessary to use technology, standards of living are high. In areas in the world where technology is not used and where the workers are mostly uneducated, many people live in poverty.

The implementation of technology requires a risky expenditure of time and money. Entrepreneurs are those that take the risks necessary to bring workers and capital (tools, machinery, plants, equipment) together to create jobs and wealth. Countries with entrepreneurs tend to implement technology and foster wealth creation; whereas, countries without entrepreneurs stagnate in these same areas.In economic systems that create an environment of creativity and wealth creation, entrepreneurship flourishes.Under other economic systems, there are substantial roadblocks for entrepreneurs that limit creativity and innovation. The system of rules in which entrepreneurs can succeed and in which technological change results is often called economic freedom. Economic freedom is created by a system of rules where property rights are protected and the rule of law prevails. Countries with economic freedom tend to have low tax rates, low amounts of regulation, and very little corruption.



In countries without economic freedom, markets and entrepreneurship are hampered. Many of these countries have a standard of living much like America during the eighteenth century. Part of this is from the lack of property rights, rule of law, and high corruption that make entrepreneurship difficult. To start a business in some countries, many thousands of dollars of bribes must be paid out to corrupt government bureaucrats. After the business is started there is a constant risk of government policy destroying the business. Most new ventures in countries where small business is encouraged, like in the United States, fail within the first five years. If starting a business in a country where private property rights and the rule of law is respected is risky, imagine how difficult entrepreneurship is in a country without economic freedom? The lack of access to capital, the difficulties of gaining education, the lack of technology, the failure of the rule of law—all combine to create a system that crushes the initiative of entrepreneurial citizens and makes upward mobility, education, and achievement difficult.

The level of economic freedom within a country can powerfully influence economic outcomes. As just one example, many students in the African country of Guinea study under street lights at Guinea's G'bessi Airport. They gather at the airport because they are unable to obtain expensive electric power in their homes. Many of these students, however, own cell phones. They have access to the new technology of cell phones because the rules governing their use provide entrepreneurs with incentives to provide that service. The government imposed restrictive rules on electric power generation, so that older technology is not as cheaply and readily available.

When entrepreneurs are given the economic freedom they need, the invisible hand of the market guides profit driven entrepreneurs to solve problems and increase standards of living. For instance, high copper prices frustrate plumbers, telephone companies, and electricians who must use copper in their businesses. If an entrepreneur can find a good alternative to copper and start a business providing consumers with it, they can make a profit. As copper prices went up, entrepreneurs started companies making fiber optic cables, which replaced copper wire in some applications in the communications industry. Entrepreneurs have also started companies making plastic pipes that plumbers can use instead of the more expensive copper pipes. As copper is replaced by alternative products, it becomes economically less scarce and the price goes down.

An entrepreneur can earn significant profits by identifying the problems of others that can be solved. The greater the pain, the more the consumer is willing to pay to solve the problem. The entrepreneur that finds a good substitute to the high priced resource not only earns a high profit, but solves the consumer’s problem, and by decreasing demand for the high priced resource, causes the price of the resource to go down. In this way, supply and demand guides the profit-seeking entrepreneur to solve critical problems. For example, it was during the high gas prices of the 1970s that cars became substantially more fuel efficient. Some economists have found that when energy prices are high, air conditioners become more energy efficient. When energy prices are relatively low, entrepreneurs focus on making air conditioners cheaper to produce and purchase. Since profits are found by solving problems, the technological changes that drive economic growth do the most good.

## International Trade

In early America, under mercantilism, trade between the colonies and other nations was highly regulated, and most trade was confined to countries in the British Empire. Once independence was won, the United States looked to increase industry and trade. The Constitution took down the trade barriers that had governed commerce between individual states, but international free trade was not the goal. Until the passage of the 16th amendment, which instituted a federal income tax, the government paid for its operations mainly through tariffs and customs duties. A tariff is a tax on imports or exports. Tariffs helped the new nation compete with more powerful countries and established industries abroad and helped promote homegrown industrial development. Throughout its history, the United States has also enacted embargoes (prohibiting the importation of certain goods for economic or political reasons) and quotas (allowing a limited amount of importation depending on needs and cost).

Nations enforce tariffs, embargoes, duties, and quotas because it can be a form of tax paid by non-citizens, and can raise substantial revenue for the government. Additionally, the extra cost of imported goods helps protect domestic business and labor. An American company, struggling to compete with foreign producers, benefits when tariffs make those foreign goods more expensive to the consumer or if quotas and embargoes prevent their importation in the first place. When American businesses prosper, it can create more jobs for American workers.

Trade between nations has been severely restricted in recent decades, but there has been an increasing debate over the issue of “free trade” and the idea of “free trade zones.” The reasons to encourage free trade are closely associated with the strengths of the market economy—incentive, creativity, choice, opportunity, and economic competition. Critics of “free trade” point to countries with weaker economies and lower labor costs which disadvantage the United States. Those who argue for “free trade” and open markets suggest that with equal access to the world’s goods and services there would be less reason for international competition and war. Over the past thirty years America has moved toward free trade between nations. This move has come through international trade agreements like the General Agreement of Tariffs and Trade (GATT 1948), the North American Free Trade Agreement (NAFTA 1992), the World Trade Organization (WTO 1993), and the Trans-Pacific Partnership (TPP 2016). In the global marketplace, the interrelatedness of the world economy makes trade laws and regulations incredibly complex.

## The Church’s Teachings on the Market Economy

The Church doesn’t have an official stance on the market, though some leaders may have personal opinions. Members and church leaders have generally supported the principles and practices of the market system rather than socialism, as it allows for more agency and accountability.

The 8th Commandment given through Moses, “Thou shalt not steal,” presupposes the existence of private property. In this dispensation the doctrine of the Church has reaffirmed the paramount importance of the right to property: “We believe that no government can exist in peace, except such laws are framed and held inviolate as will secure to each individual the free exercise of conscience, the right and control of property, and the protection of life.” (Doctrine and Covenants 134:2). These rights and presuppositions are reinforced through the Declaration of Independence and protected through the Constitution.

In 1805 when Lewis and Clark set out to explore the western part of the North American continent, nothing traveled faster than a horse—not even communication. After centuries of almost no change in the income or economic activity of everyday people, the world dramatically changed sometime between 1820 and 1830. We, as members of the Church, understand the timing of this shift in the economics of the world. Modern prophets have taught that the establishment of the Constitution was necessary for the “marvelous work and wonder” that is the restoration of the gospel. In fact, the continuation of liberty is essential for us to continue to build God’s Kingdom upon the earth. Without freedom, especially religious freedom, God’s servants would not have had the opportunity to restore and preach the gospel. And economic progress and freedom have played an important part in maintaining that liberty.

The prophet Joel in the Old Testament prophesied that in the last days the Lord would pour out His spirit upon all flesh (Joel 2: 28). Joseph Fielding Smith taught that one of the manifestations of the spirit of the Lord being poured out upon all flesh has been the remarkable advances in technology and scientific innovation that has been uniquely associated with the last days. This technological change greatly facilitated the spread of the gospel. The invention of the movable type printing press made it possible for the Bible to be printed for the common man centuries ago. In today’s world, satellite and internet technology makes it possible for people all around the world to listen to modern prophets during the General Conference of the Church. As the “just and holy principles” of the Constitution have been exported to the rest of the world, both the gospel and economic progress have followed.

In countries that have a relatively free market economy, like the United States, we often observe behavior among its most successful participants that we find to be deplorable. Disparities in wealth, economic depressions, and dishonest business practices often cause people to call into question whether a market economy is truly based on a foundation of “just and holy principles.” However, acts of fraud and theft violate the right to property and must be prosecuted in order for a free market economy to be truly free and to function well. Furthermore, freedom requires responsibility. In order to maintain the blessings of liberty, we must remain moral. The Book of Mormon teaches that pride leads to secret combinations which lead to legal plunder, the destruction of the rule of law, and an undermining of free markets. We have also been commanded to be righteous stewards and to serve God by caring for and empowering those that are less fortunate. Ultimately prosperity is obtained by nations as they keep the commandments of God.

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