

**“Minimizing Government Control over Economic Life and Strengthening Competitive Private Enterprise.”\* In *Problems of United States Economic Development* , vol. 1, pp. 251-257. New York: Committee for Economic Development, 1958.**

During most of the twentieth century, there has been a continual if sporadic extension of governmental control over economic life. This trend reflects the widespread tendency to turn to government to remedy real or supposed evils, the centralizing effects of two world wars, and a shift in the intellectual climate of opinion away from individualism towards collectivism. The major economic challenge facing the United States in the coming decades is the reversal of this trend through the maintenance and strengthening of competitive private enterprise. A successful response is essential both for continued economic progress and, what is even more important, for the preservation of a free society.

### **1. Sources of Strength**

The immediate position is in some ways more favorable than it has been for many decades. The magnificent post-World-War II record of free-enterprise economies, the disappointing performance of central “planning” particularly in Britain but also in other Western countries, and the glaring example offered by Russia of the suppression of personal freedom under this leading type of central planning, have all served to disillusion intellectuals and others about the merits of collectivistic solutions to economic problems. There is widespread recognition that government intervention is not a panacea. There is renewed understanding of both the efficiency of the market mechanism and its important role in the dispersal of power and the preservation of freedom. As a result, for the first time in half a century the trend of opinion shows signs of running in a direction favorable to a competitive private enterprise society.

This change in the climate of intellectual opinion, though striking, is but one and not necessarily the most important of the forces tending to preserve and maintain competitive private enterprise.

The major source of strength is the deep and abiding belief in personal and civil freedom that is so central a feature of Western thought in general and American thought in particular. Extension of governmental intervention in economic affairs threatens this freedom. Many of us thought in advance that when such a conflict arose, personal and civil freedom would give way to central planning. In the event, in Britain and in many other countries, central planning has given way instead. This is surely the most encouraging event of the postwar years for the believer in freedom.

Another source of strength is that the free market works impersonally and anonymously; departures from it frequently do not. Interference with the market therefore attracts attention out of all proportion to its importance. The higgings and haggings among millions of individuals that accompany a sizable rise in the wages of domestic servants go unrecorded and unnoticed. Bargaining about the wages of a few thousand organized workers is front page news. Interferences with the market thus frequently lead to public reaction before they have become widespread as to be nearly irreversible.

Still another source of strength is the ingenuity and resourcefulness of the individual businessman and worker in finding ways around governmental controls. The harnessing of this ingenuity and effort by a free enterprise system is what makes it so efficient a mechanism for organizing economic activity; by the same token, it also makes it hard to control. The degree of actual interference with the workings of the market is often vastly less than a reading of the laws and regulations under which business operates would suggest.

A last major source of strength is the revival in the Western world of a belief in the efficacy of monetary policy for preventing large changes in prices and income. Monetary policy is or can be impersonal and general in its impact; it affects the framework within which the market operates without detailed intervention into the terms of exchange. It is thus the

appropriate means for stabilizing aggregate demand in a free enterprise society. The revival of belief in its efficacy means that it is more likely to be permitted to perform this function.

## **2. Threats to Competitive Private Enterprise**

Direct subversion is not, for the time being at least, a serious threat to competitive private enterprise. The important threats are more indirect, on both ideological and mechanical levels.

### **a. The Indirect Ideological Threat**

Intellectuals and political and business leaders overwhelmingly reject slogans labelled Marxist; most of them support free-enterprise slogans. But these generalities conceal the implicit acceptance of many views that derive from the socialist orientation of intellectual thought in past decades, views that have been further strengthened by the successes of the communist world in politics, their achievements in the production of military weapons, and their claims of great economic accomplishments. All these lead to admiration, albeit grudging, for centralized control of economic activity.

One striking yet little recognized example is our foreign economic policy. We have sought to further the economic development of other countries by grants to their governments. These grants have in most cases been contingent upon the “approval” by officials of our government of the projects to be so financed. In this way, we have strengthened the government sector in the recipient countries at the expense of the private sector and have fostered the view that a “central” plan and governmental supervision are requisites to economic progress, which is to say, that private enterprise is a less effective means. And we have done so in face of the fact that economic development in the United States occurred without central planning, without much government participation in economic activity, without governmental approval of “projects” or extensive provision of capital. And what is true of the United States is true of every other country that has had a substantial and continuing rise in the standard of life of its people—to date no country has succeeded in doing

so via central planning! Yet our foreign aid program accepts implicitly the Marxist view that economic development must be “planned” and must come through government.

The indirect ideological threat is reinforced by the “conservative” bent of most of us. We tend to accept what *is* as necessary and desirable. Governmental interventions in the economy that have already occurred come to be taken for granted and objections are raised only to still further expansion. In an environment in which there are always many pressures for additional government action, and in which changing circumstances make some additional governmental activities both inevitable and desirable, such a conservative opposition can at best slow down the growth of the public sector.

### **b. The Impact of the Cold War on Government Policies**

The Soviet Union’s challenge to the West has had a mixed effect on competitive private enterprise. It has helped produce a favorable change in the climate of opinion. But it has also led us to adopt policies in self-defense that are inconsistent with competitive private enterprise. The military threat makes necessary large federal expenditures and heavy taxes. This is directly a departure from a free economy and indirectly it sets up dangers of further departures, both by establishing vested interests in the continuation of governmental programs and by reducing private incentives and opportunities. In addition, the need for “security” becomes a forceful argument for governmental control over non-military uses of products and processes that also have a military application—atomic energy being, of course, the prime example—and leads to the acceptance of governmental controls over both private and public employment that seriously invade personal freedom and privacy. Finally, external danger recommends, rightly or wrongly, such measures as the foreign aid policies already referred to, controls on East-West trade, governmental stockpiling, and import quotas on oil—all of which are clearly inconsistent with competitive private enterprise.

### **c. The Threat of Inflation**

A threat to a free economy of a different—though not unrelated—kind is the likelihood of inflationary pressure during coming decades. This likelihood itself arises from widespread acceptance of “full employment” as a major governmental responsibility. Despite recent experience, the public at large is far more concerned about the dangers of unemployment than of inflation. Any recession or faltering in the pace of economic activity involving noticeable unemployment calls forth urgent demands for governmental actions to offset the recession. And such actions are highly likely to be forthcoming even though, in the absence of special action, the recession would be mild and self-corrective. A probable consequence is an over-reaction that leaves an inflationary heritage. The result may well be a series of recurrent inflationary episodes, each produced by the measures taken to counteract the recessions or “rolling readjustments” that punctuate the period.

This kind of inflation is not likely to be drastic or to degenerate into uncontrollable hyper-inflation if prices are left free to rise. While unfortunate and undesirable, it would offer no great threat to the preservation of free enterprise—free enterprise is sufficiently flexible and adaptive to take moderate inflation in its stride, as experience has repeatedly demonstrated. The real danger is that we shall not fight the inflation solely by general monetary means but shall seek to eliminate its manifestations either by direct governmental controls over prices and wages or by pleas—backed sooner or later by more than moral suasion—to business and labor to exercise “social responsibility” in setting prices and wages. Either policy would undermine the operation of a free market and require ever more extensive governmental intervention. If prices are not permitted to clear markets, some other mechanism must, and government allocation, rationing, and the like are the obvious alternatives. Numerous examples show how rapidly such governmental measures become “necessary” once prices are controlled.

If, indeed, competitive private enterprise is destroyed in peacetime during the coming decades, this seems by far the most likely route.

#### **d. The Pressure of Special Interests**

The ever present pressure of special interests is the final threat that I shall note to competitive private enterprise. Many who favor “free enterprise” in general are opposed to it in the particulars in which it affects themselves.

In the American tradition, the “free” in free enterprise does not mean that established enterprises shall be “free” to do whatever they want including keeping out competitors by cartels, price-fixing arrangements and the like. It means rather “freedom” to compete, the “freedom” of anyone to set up an enterprise. Free enterprise means that the new entrant shall have neither special advantage nor disadvantage; it means a clear field for all, without governmental favors for any. The businessman who favors a tariff on his product; the oil company that supports the Texas Railroad Commission or the Federal administration’s attempts to restrict oil imports; the home builder who regards F.H.A. insurance of mortgages as in the “public interest”; the businessman who presses for the provision of loans at specially favorable terms by the Small Business Administration; the manufacturer who wants Congress to legalize resale price maintenance; the broadcasting executive who seeks to have the Federal Communications Commission forbid pay-as-you-see TV—each of these is undermining a free private enterprise society whatever his protestations.

Freedom of enterprise includes freedom of individuals to combine—whether of individual businessmen or laborers—provided that, in the one case as in the other, such combination does not establish a monopoly position and thereby interfere with the freedom of others to set up a business or offer themselves in competition for a particular kind of labor. Labor unions, like businessmen, have been only too ready to seek and accept governmental help in pursuing their private interests—through legal immunities not available to other groups, licensing laws, building codes, let alone through explicitly favorable pro-labor-union legislation. In this way, they too threaten free enterprise.

### **3. Conclusion**

There is little chance that competitive private enterprise will be destroyed by deliberate intent. The real problem is rather that a lack of understanding of both its importance and its meaning will lead to the adoption of policies that undermine it by inadvertence. This major economic problem will take many forms in coming decades and will be an essential element in each of the specific problems that we shall have to meet.

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## Notes

\* From the Foreword by Gardner Cowles: "The forty-eight papers in this Symposium were solicited by the Committee for Economic Development (CED) with financial assistance from the Ford Foundation. The authors were asked to write 2,000 words on the question: 'What is the most important economic problem to be faced by the United States in the next twenty years?'"