

The Council's First Annual Report to the President discussed the political philosophy of the Employment Act of 1946 and the economic philosophy of sustained employment. The second dealt with the meaning of maximum production and the means of attaining it, and the third considered the environment within which the Council operates. These three efforts brought indication that revelation of our general economic thinking was appreciated. They also provided background for the Economic Reports of the President and the Economic Reviews by the Council, which appear in January and July of each year. In this Fourth Annual Report, we discuss the relations between business and government because we find this subject of significance at all times and close to the forefront of general interest now.

We use the term "business" to refer to business management, recognizing that our system of free enterprise includes also workers, farmers, consumers, and their organizations. They equally are confronted by the system's problems; they too are responsible for its achievements; they too have dealings with government and are concerned about public policy. Before long we hope to discuss their relations with government.

# I. Free Enterprise and Free Government

## COMMUNISM, SOCIALISM, AND THE AMERICAN SYSTEM

The balanced emphasis which the Employment Act places upon the merits and responsibilities of free enterprise and free government is typically American and yet of universal import at this midpoint in the twentieth century. In the last century the philosophic base was laid for extremist doctrines that these two freedoms were irreconcilable, and that one or the other would give way under the impact of industrial concentration, disparate wealth, and popular communication. More recently, these extremists rose to command in many lands. On the right, powerful economic groupings allied themselves with counterrevolutionary movements to destroy free government. On the left, powerful statist revolutions swallowed up free enterprise. We now know how similar are the weeds growing from these different seeds, and how their pollen stifles genuine economic progress, intellectual inquiry, and spiritual aspiration. These manifestations create international problems. But they do not require much analytic annihilation because they make no appeal to the minds or hearts of the American people.

Then there are the current efforts by other peoples with a long tradition of democracy to combine free government with very substantial diminution of free enterprise. In our view these other free peoples will approach their own special problems according to their own needs or beliefs; but our problems are not theirs and we have different methods which are all our own.

During the nineteenth century there were many thinkers even in the United States who, appalled by the prevalence of poverty in a land of plenty and by the crude manifestations of industrialism in the raw, argued sincerely that neither our people nor their government could remain truly free so long as business enterprise remained free. But there are powerful reasons why this thesis is no longer given serious consideration. Although many of our problems remain unsolved, our unique combination of free enterprise and free government has moved so rapidly toward raising the general standard of living that the fair hope of more progress by the same methods immensely outweighs the costs and risks, the divisions and tensions, and above all the uncertainties, of radical change. All history shows that freedom in the long run may best be safeguarded through moderation in the adjustment of seeming conflicts. And the American system is so fortunately situated that it furnishes to the world a beckoning example of this kind of moderation.

The case for moderation grows in appeal because, whatever the situation in other lands, the only conditions which could seriously undermine free enterprise here would also jeopardize free government and possibly do it irreparable damage. In sober retrospect, not even the great depression of the 1930's altered the basic character of our economic system or reduced the commitment to it by the people and also by our most "advanced" philosophers, economists, preachers, and other social thinkers. It follows that nothing less than another depression even more devastating could break us away from this basic commitment. And any such economic convulsion could unleash forces of social tension, domestic friction, and pure political adventuresomeness which might leave us for a time without the essence of free government. Thus, those whose concentration of interest is upon free enterprise and those whose concentration of interest is upon free government are held together by unseverable bonds. No genuine liberal—and most Americans call themselves that—would welcome an economic crisis in order to have a chance to remold the economic system nearer to his heart's desire. We all know what happened to the liberals elsewhere who waited for or courted that opportunity and got totalitarianism instead.

Many of our domestic problems revolve around the application of moderation, compromise, and reconciliation in defining the respective rights and responsibilities of free enterprise and free government under a popular democracy. There are many ways of stating this root issue. How can enterprise remain free enough to be dynamic without

moving from freedom to license? How can government be strong enough, as Lincoln said, to maintain the essential interests of the people without invading their liberties? How can stability be equated with growth? Liberty with law? Individualism with cooperation? How can we steer between the dangers of absolutistic freedom and the deadliness of absolutistic security? However put, these questions involve business and government and seek to broaden their areas of agreement and to strengthen their complementary interactions.

Nobody can resolve this omnipresent issue with a single formula, symbolism, or definition. But there is room for a broad effort to formulate or restate a philosophy of the relationship between business and government. A philosophy voices that agreement on a few fundamentals, alive in the minds of the people, without which there can be little unity or progress. Without universal accord in America about free speech, for example, we could not benefit by debating our disagreements about so many other things. In our economic life no less than in our political, there is need for some common philosophy to hold us together; and since constitutions and courts are not so well suited to this purpose we must resort to the voluntary projection and constant cross-fertilization of ideas.

Economists may take some initiative here because economic problems occupy or even overcrowd the stage on which the drama of adjustment between business and government is going forward. And this Annual Report of the Council to the President is a convenient location for such discussion, in contrast with the Economic Report of the President and the Annual Economic Review by the Council (both scheduled for early January) which must necessarily be steeped in facts and particularistic points of policy.

What we now say is by definition general. Logical deductions from it will not reveal the content of specific programs which may be proposed in 1950 or any other year. Nonetheless, it is our earnest desire that this report will have some influence upon attitudes both in business and in government, and that it may uncover the solid ground on which they can deal with each other in ever-increasing harmony and trust.

#### A NEW GENERATION NEEDS NEW IDEAS

The particular urgency of this subject exists because there has now grown to maturity a whole generation of Americans touched by the influence of extremists who look upon conflict between business and government as normal. Conditioned by the depression era, extremists on one side have said that our business system broke down through fatal defects and that government took the whole leadership in putting it together again; while extremists on the other side have blamed government for all the tribulations of business. The new generation of Ameri-

cans should always remember that the breakdown resulted from errors on the part of both government and business; that both joined in forging some of the most practical measures for recovery; and that both must admit imperfection because the recovery was incomplete until the war restored maximum production and employment.

This new generation of Americans has also observed that some of the national programs directed toward economic change have initiated from government and been opposed by some spokesmen for business. But the extremists on either side should not overplay this observation to range either government or business along with the angels or the devils. Rather it should be recognized that it is a primary function of government, representing the whole people, to view the economy as a whole and to propose general measures. It is the function of business, as the main operators of the going economic system, to be conservationist if not conservative and to be wary about discarding workable machinery before better machinery has been clearly tested. In the interaction between these two functions, which is essential if we are to preserve both free enterprise and free government, the clash of viewpoint and the reconciliation of means to ends are in themselves beneficial, particularly when undertaken in good spirit.

We have now moved far enough away from the depression of the early thirties to start looking ahead, and to appraise the heartening evidence that free enterprise and free government have blended their varying strains into a rewarding effort. The conduct of the war was an example never to be forgotten. The moderate character of the 1949 recession, and the upward turn which followed, would have been impossible without business policies as well as public policies based upon greatly increased understanding of economic affairs.

The time has come to develop the prospects of the American economy for further economic progress and human happiness. Unlike other countries we were not decimated by war; we do not suffer from underdevelopment or impoverishment of basic plant and equipment; and we have the operational and financial skills, the splendid labor force, and the solid institutional structure to realize in full the promise of America.

The only thing that could stand in our way—provided that lasting peace is achieved—would be excessive internal discord. This would not stop our economic progress in the long trend, but it could slow it down greatly and leave us subject to costly fluctuations which we probably have the technical know-how to avoid or mitigate.

At this juncture, there may be value in a candid stocktaking of current relations between business and government. We shall place the greater emphasis upon the vast progress which has already been registered and upon the assets which have consequently accrued. But we cannot neglect some of the problems yet unsolved.