

Chapter 1

Opportunity and Responsibility in a Free Economy

THE ENORMOUS PRODUCTIVE POWER of the American economy was demonstrated again in 1956 when the Nation's output of goods and services reached \$412 billion. This vast and increasing output provides the means for assuring our national security, supplying our present consumption needs, and building our capacity for future production. Furthermore, it is accompanied by the release of additional time for creative personal development as well as for the more complete enjoyment of material things. Our free economy thus affords the American people an opportunity for better living in all its aspects.

These accomplishments reflect the efficiency of competitive markets as instruments for organizing and expanding production and consumption, but they do not of themselves reveal the social and individual values inherent in a free society. Among these are wide access to education and training, choice of a vocation from among many different employments or business pursuits, enjoyment of the rewards of one's own accomplishment, and freedom to plan consumption and investment according to personal preference and judgment. Moreover, our free economy gives indispensable support to the form of political life that we cherish.

There are instructive parallels between our political and economic institutions. No form of government offers greater opportunity for individual expression, or places heavier reliance on individual leadership and integrity. Similarly, no type of economic system offers greater opportunity for individual achievement or places heavier responsibilities on the individual. But although the opportunities afforded by such an economy are evident on all sides, the responsibilities on which it relies may be less obvious and less well understood.

These responsibilities, which center on the need for preserving and strengthening the institutions of competitive enterprise, are borne in part by Government. First, Government must pursue policies that give positive encouragement to the spirit of enterprise and protect the essential incentives to work, to save, and to invest. These policies must be designed with consideration not merely to their present impact but also to their long-run effect on the vitality and resiliency of the economy. Second, Government must exercise a strict discipline over its expenditures and must

take in taxes no more than absolutely necessary of the incomes of individuals and businesses. Third, Government must curb monopolistic tendencies and strive for conditions in which individuals, new methods, and new products have an opportunity to prove themselves in fair competition. It is incumbent on Government to assure the reasonable diffusion of economic power as our forefathers did of political power. Fourth, Government must pursue policies that facilitate the adjustments to advancing technology and changing consumer demands that are essential in a dynamic economy. It must avoid policies that make these adjustments more difficult. Finally, it must pursue policies that will help maintain high levels of production and employment and contribute toward achieving the goal of an expanding and widely-shared national income, earned in dollars of stable buying power.

But Government cannot assume exclusive responsibility for the smooth functioning of our enterprise system, nor can it guarantee sustained economic growth. Even an attempt to do so would involve intervention on a scale incompatible with the fundamental character of our enterprise system, based as it is on the belief that, when regulation is minimized, the energies and talents of the individual are more fully released for economic betterment. In such an economy, heavy responsibilities for the effective and equitable functioning of production and distribution must be borne by the individual in his own economic activity and in his organized activity with others.

Prominent among these responsibilities is that carried by the management of business concerns, particularly of companies having large and widespread operations, to administer their affairs so as to help avoid economic imbalance and dislocation. That much progress has been made in the acceptance of this responsibility is evidenced by the increasing practice of planning expansion programs well into the future and organizing operations with a view to greater stability of employment. Nevertheless, our economy has been subjected at times to heavy strains as excesses have crept into the management of business inventories, into the expansion of facilities, and particularly into the use of credit. Business management has a clear responsibility, in its own interest no less than in the national interest, to avoid such excesses and to formulate and carry out its plans so as to contribute to steady economic growth.

Management also has the responsibility, as does labor, to remove restrictions on competition and to enhance the adaptability of the economy to new technological and demand conditions. And thoughtful leaders of agriculture will not seek to improve its economic position by means which would prevent essential adjustments to changing market conditions. Competitive markets and the opportunity to move into any line of endeavor within the limits established by personal aptitudes, technological needs, and market demands are essential conditions of a strong enterprise system.

A further responsibility of leaders of management and labor in a free economy derives from the fact that concentrations of power place in their

hands the ability to take actions that, through the sensitive network of our economic system, significantly affect the Nation as a whole.

Specifically, business and labor leadership have the responsibility to reach agreements on wages and other labor benefits that are fair to the rest of the community as well as to those persons immediately involved. Negotiated wage increases and benefits should be consistent with productivity prospects and with the maintenance of a stable dollar. And businesses must recognize the broad public interest in the prices set on their products and services.

The full burden of avoiding price inflation, which is an ever present hazard in an expanding economy operating close to capacity, cannot be successfully carried by fiscal and monetary restraints alone. To place this burden on them would invite the risk of producing effects on the structure and functioning of our economy which might, in the years ahead, impair the vitality of competitive enterprise. And failure to accept the responsibilities inherent in a free economy could lead to demands that they be assumed by Government, with the increasing intervention and loss of freedom that such an approach inevitably entails. The successful extension of prosperity with price stability must be a cooperative effort in which the policies of individuals and economic groups and of all levels of Government are consistent with one another and mutually reinforcing.

There is much that the last four years can teach us of the opportunities inherent in a free economy and the responsibilities of Government and of citizens for helping to realize them. Accordingly, this Report first gives a brief account of economic developments and policies in 1953-56. This is followed by a more detailed record of economic developments in 1956 and of the policies which Government adopted during that year to help maintain stable economic growth. Finally, proposals are set forth to help extend prosperity into the future, to strengthen competitive enterprise, and to increase our ability to achieve further improvements in national well-being.