

The Free Enterprise System

by Darryl R. Francis

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Nineteen-seventy-six is not only the 200th anniversary of the birth of the United States, it is also the 200th anniversary of The Wealth of Nations, the best book advanced by that foremost champion of the free enterprise system, Adam Smith. I am sure that Smith would be pleased to observe the economic accomplishments attained over the past two centuries by the most enterprising of the free nations. But he would be dismayed at the recent turn in events toward ever-increasing government intervention. He would be astonished to learn that a country, by utilizing maximum economic freedoms, obtained for its citizens the highest standard of living in history, and then chose voluntarily to slow its progress through the imposition of a myriad of restrictions, regulations and controls.

In the past few years we have witnessed an explosion of regulatory agencies such as the Occupational Safety and Health Administration, the Equal Employment Opportunity Commission, the Environmental Protection Agency and the Consumer Product Safety Commission. These have been superimposed on the already existing network of bureaucracies, which includes the Interstate Commerce Commission, the Federal Power Commission, the Federal Communications Commission, the Securities and Exchange

Commission, and the Civil Aeronautics Board. Most of this latter group have been established since 1920.

In addition to these agencies, other measures have been adopted or are being discussed which have the effect of eroding individual freedom even further. Peacetime wage and price controls were instituted for the first time in this country in 1971. At present, there is much talk by the legislators about the necessity for economic "planning", a euphemistic term for governmental coercion of business and labor groups, if it means anything.

How did we get to this state of affairs where we substitute the judgement of government bureaucrats for the judgement of men and women acting in their own behalves and on the behalf of society? I know of no evidence that demonstrates that today's business leaders and workers are more monopolistic, greedy, malicious or dishonest than they were 50, 100 or 150 years ago. And in those days, there was little question that everyone in our society prospered most when left to make his own decision about what to buy, what to produce, and what to pay for the product.

It has long been said that, "Build a better mousetrap, and the world will beat a path to your door". In years past, it was true that there were considerable rewards for those willing to incur the risks and the costs of trying to do something better and more efficiently than

anyone else. Today, the rewards have been sharply reduced by a progressive individual and business tax structure, while the costs have been pushed up with the addition of each government regulatory agency.

Try to imagine the ordeal of today's better mousetrap builder. Assuming he could get into the mousetrap game without requiring the government's permission (which he would need in many business lines), his mousetrap would have to pass inspection by the CPSC. Regardless of how long it took to establish the business, he would have to pay no less than the current government-imposed minimum wage and begin contributing to employees' social security benefits immediately. His hiring policies would have to recognize local union practices and conform with the latest EEOC minority employment requirements. His workshop or factory would be subject to OSHA production requirements and investigation by OSHA inspectors with "no-knock" authority to enter the plant at anytime. The EPA would be interested in the correctness of his mouse disposal procedure in the plant area and the accuracy of his environmental impact statement. If he happened to get a Federal contract for producing mousetraps, say from the Pentagon, his hiring, pay, and production practices would fall under an even more stringent set of regulations.

By the time he hired a sufficient staff to handle the voluminous government paperwork requirements, obtained the legal assistance to interpret the ever-changing regulations, paid the insurance to protect himself against law suits filed by his customers and government agencies, and paid the necessary state, local, and Federal taxes, he might be ready to charge a price for his product which would reflect today's high costs of doing business. If he were then to run afoul of a price control board or price council which forced him to set a price below cost in the interest of holding down inflation, I don't think we could blame him for closing up shop, and telling the government to build its own "better mousetrap".

Given that all these laws were passed with the best of intentions, what do you think the effect is on incentives, efficiency, inflation, and employment? Given these regulations, how free is free enterprise today? It is my view that unless current trends are reversed, free enterprise is on the way out.

Besides the mass of government regulations which inhibit free enterprise by destroying incentives and fostering uncertainty, there are two other factors which work against the restoration of the free enterprise system: one is the sheer growth of government which crowds the private sector out of the market in many ways, and the

other is the inflationary tendencies of today's economic society. The scope of the changing role of government in economic affairs is reflected in the fact that government spending accounts for \$1 out of every \$3 spent today, compared with \$1 out of every \$10 in 1929. Moreover, 1 worker out of 5 is employed by some form of government today, compared with 1 out of 10 in 1929. Thus, contrary to that school of economic thought which holds that government has merely acted as a stimulant to private enterprise, it is my view that government has installed itself as a substitute for free enterprise.

In order to finance the growth of government expenditures which has outstripped legislated tax increases, the monetary authorities have often been called upon to support the exploding government bond market. The result has been rapid increases in the money stock in the face of slowing productivity growth-- a combination which has led to rapid increases in prices in recent years. Inflation itself works against the private sector in that inflated incomes push individuals and firms into progressively higher tax brackets, resulting in more government revenues and less real take home income. The loss of purchasing power discourages private spending, which in turn, discourages the private sector from either hiring more workers or expanding plant capacity. The

resulting sluggishness in the demand for labor and nonlabor resources encourages more government intervention. Thus, we seem to be caught up in a vicious cycle which promotes the expansion of the government sector and the decline of free enterprise.

Besides unemployment and inflation, there is a third problem which has arisen with the government-fostered attrition of the free enterprise system: energy shortages. For years, government regulators promoted a growing imbalance between the demand for and supply of all sorts of energy products. By artificially holding down the price of oil and natural gas, in particular, the regulators guaranteed consumers a cheap source of energy in the short run; but by denying producers a competitive rate of return, the regulators virtually assured the nation a shortage of energy products over the long run.

If the free enterprise system were permitted to function properly, I have no doubt that it could overcome the combined efforts of a short-sighted government and the monopolistic international oil cartel. After all, it was American free enterprise which quickly advanced the production of kerosene, following the unexpected loss of whale oil--the main source of artificial light in the early 19th century. Today, however, with government debt forcing up the costs of venture capital, with restrictions on

virtually every phase of the research process, with the knowledge that higher taxes and inflation will eat into profits, and with the suspicion that the government will intervene to set an unrealistic rate of return on investment, I question the likelihood of "free" enterprise taking the high risks required to develop alternative sources of energy for future generations of Americans.

Fortunately, I see signs that a number of prominent policymakers are waking up to the dangers inherent in our drift away from free enterprise, possibly because of the negative examples provided by Great Britain, Italy, and many other countries whose government sector is even stronger than ours.

There are instances recorded in the past when the government gave up some of its power voluntarily. One example is the cessation of price and wage controls following their peace and wartime use. On other occasions, such as the Supreme Court's invalidation of the price and wage-setting National Recovery Act in the 1930, some of this power was relinquished involuntarily. Thus, there is some hope that we will protect ourselves from or be protected against the monopoly of government—a far greater threat to our survival than the monopoly of either business or labor. But, as a native of Missouri, I believe that the public and our elected officials will have to "show me"

that they really desire a return to the free market principles first outlined by Adam Smith before I am ready to vouchsafe the security of our future.