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OUR FREE ECONOMY: REALITY OR CLICHE' ?

(Address to the Kiwanis Club of Oakland, California, May 6, 1957, by Dr. Glenn E. Hoover, Professor of Economics, Emeritus of Mills College, and member of the Oakland City Council.)

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The author of the famous chapter on "Snakes in Ireland" began it with this sentence: "There are no snakes in Ireland." And there the chapter ended. As a man of good sense, when he had exhausted his topic, he stopped. If I followed his example, I would tell you that in our over-taxed, over-regulated, over-governed world there are no free economies, and would then sit down -- to our mutual satisfaction. But now that half shirts have gone out of fashion, service club members seem to think it prudent to do penance by politely listening to luncheon speakers. And so, to our free economy, which, strictly speaking, is as unreal as a unicorn.

Too many people still believe that our economic system was designed by English colonists who settled here to enjoy the freedoms which were denied them in Europe. With all due respect for our Founding Fathers, that notion is quite wrong. Most of our present ideas concerning freedom were developed on this continent. For instance, the Puritans came here, as some wit observed, "To worship God as they pleased -- and make everybody else do the same." In their theocratic government, Quakers, "Papists" and other dissenters were excluded, or treated as second class citizens. The Puritans had their considerable virtues, but religious tolerance was not one of them.

As to economic freedom you may recall that in both Massachusetts and Virginia, the Fathers first established a communistic system. Food was collectively grown and stored in a common warehouse from which it was distributed according to need rather than work performed. "From each according to his ability and to each according to his need" is the slogan which best describes a purely communistic system, and it was such a system that the Founding Fathers introduced here some two centuries before Karl Marx was born. They did so -- if I may needle my ultra-conservative friends a bit -- because in a normal family group, goods are produced and distributed in the communistic fashion, and they tried first to operate as one big family.

Equipped with our hindsight it is easy to see why their system failed. But the Fathers, though they made mistakes, were not stupid, and they soon corrected their errors. They found that their system provided them with a ration of only a quarter of pound of bread a day per person; the people complained that they were too weak to tend the crops as they should; that although they were deeply religious, they had begun to steal from each other. The Colonists seemed doomed to extinction.

How the Plymouth settlers abandoned their communistic system and established individual initiative has been told by Governor Bradford, in language every American should read. He records that the colonists "began to think how they might raise as much corn as they could ... that they might not still thus languish in misery."

And so, In 1623, "after much debate of things" It was decided that "they should set (plant) corn, every man for his own particular, and in that regard trust to themselves ... and so assigned to every family a parcel of land." ... "This had very good success; for It made all hands very Industrious." ... At harvest time, "Instead of famine, now God gave them plenty ... and the effect of their particular (private) planting was well seen, for all had, one way or another, pretty well to bring the year about, and some of the abler sort and more Industrious had to spare, so as any general want or famine hath not been amongst them to this day."

It can hardly be said of the pious Fathers that they practiced what is now called "Godless Communism". But they certainly practiced Communism, nearly perished of it, and learned a lesson which, apparently, each generation must learn for itself, as we seem incapable of learning from the experience of others.

Complete Freedom Never Achieved.

But If our Founding Fathers soon rejected communism, neither they nor their descendants ever achieved complete economic freedom. In all the colonies there were half-free workers known as "indentured servants", and until the war between the states, most of our Negroes were slaves. Three centuries prior to the New Deal, there were governmental controls of apprentices, prices and wages. As for sins of omission, no government, Colonial, State or Federal has ever provided a reasonably stable monetary unit, without which a free economy suffers from alternate periods of inflation and deflation.

In this "land of the free", we have never been

allowed to buy freely in foreign markets. All governments seem to restrict foreign trade as naturally as a duck takes to water. There is some quirk in our minds which makes us believe such restrictions affect foreign sellers only. We forget that protective tariffs are designed to enable our privileged domestic producers to exact from us higher prices than would otherwise be possible, and that they do it only too well. Whatever else we may be, we are all consumers, and the freedom to buy at the lowest possible price is, perhaps, the most important of all the economic freedoms. To win this freedom we must recognize that international trade is as much in the public interest as is domestic trade.

In our own country, certain extremists of the right insist that because of the high rates of our income tax, social security program, or a few Federal adventures in the building of multi-purpose dams, we are crossing the divide between Freedom and Socialism. These alarmists, to my mind, are meeting with the public indifference which they deserve. They are simply giving to the word "Socialism" a new and different meaning, and this for the purpose of appealing to our anti-socialist prejudices which they know are deeply ingrained. Those who insist that we are already well on the way to becoming a socialist commonwealth should be sent back to their dictionaries. They are behind on their home work.

In our calmer moods it becomes evident that what we have and will continue to have, is a mixed economy. In many of our communities we have long had what the British radicals

contemptuously called "gas and water socialism." We shall probably have more of it. The people of this area recently voted to create a new government to provide local transportation, and another government may be created to provide rapid transit. Not long ago the citizens of Oakland voted to have their City acquire parking lots to be operated in direct competition with lots now privately owned. This, to me is a socialistic venture, unless words have lost their meaning, but our business community seemed to be for it, and few citizens were frightened by it. Why should they be? For some decades, in this area, we have all been drinking socialistic water, brought to us, very efficiently by the East Bay Municipal Utility District. Municipal parking lots are just another example of the "down town socialism" that our business leaders demand.

Despite the charge that the Roosevelt-Truman-Eisenhower policies of the Federal Government are "socialistic", almost all of our authentic socialism is to be found at the local government level. The economic policies formulated in Washington are much more accurately described by the French word "dirigisme," from the French word meaning to direct, guide or steer. For example, it will be agreed that Washington plays a leading role in determining what farm crops shall be grown, where they shall be sold and the price at which they shall be sold, and this without owning or operating a single farm. The traditional freedom of our farmers has succumbed to dirigisme, not socialism.

#### Power in the Market Place.

Free markets are the core of free economies, and

markets are free only if traders are forbidden to exercise monopoly power. The use of monopoly power by the sellers of goods has long been forbidden by our States and our Federal government. We frequently argue about the way our anti-monopoly program is conducted, but there is general agreement that monopoly prices for goods, and more recently, securities, are intolerable and must be prohibited by law.

Do the objections to monopoly prices for goods apply equally to monopoly prices for the services of workers? On this question opinion is sharply divided and we are all tempted to sweep it under the rug, along with the other questions that are "too hot to handle." However, now that several of our larger unions have the power to shut down entire industries if their wage demands are not met, we may have to examine proposals for limiting such power.

Thus far, much of the argument about trade unions has been cloudy or self-serving, and some of it has been hypocritical and intellectually dishonest. For example, is it logical for union leaders to argue it is impossible to fix a monopoly price for labor because labor is not a "commodity"? And what of our business leaders who profess to "believe in unions" but are enraged whenever they strike, or in any other way use the power for which they are organized? Can our industrialists believe that it is alright for unions to have power, provided they seldom or never use it? How far they are from Lord Acton, best known for his adage: "All power corrupts, and absolute power corrupts *absolutely*."

Although he was always a practicing Catholic, he abhorred power so much that he would deny it to the leaders of his church. What he would say about entrusting power to some of our most publicized union leaders must be left to the imagination.

#### The Role of Pressure Groups.

Political power may be as great a threat to a free economy as is economic power. To illustrate, the farmers have little economic power, because they are too numerous to organize effectively: monopolies and their interests are often divergent if not conflicting. For example, the cattle and poultry men want cheap feed for their herds and flocks, and the producers of such feed want high prices for it. The so-called "Farm Bloc" can never be more than an unstable alliance of smaller monopolistic groups. Were it not so, the nearly 90% of our people who are non-farmers would be victimized even more than we are by our government's agricultural programs.

The farmers of course can, and do, remind us that in calling in the government to help them avoid the rigors of a free market economy they are only following the example of our industrialists. They insist, quite accurately, that beginning with the first Congress laws were enacted to "protect" our industrialists from their foreign competitors. From that day to this American consumers have never been permitted to buy freely from foreign suppliers, and have thus paid higher prices than they would have paid in the absence of governmental interference.

The pressure group technique has spread rapidly. The public treasury is now fair game for ship builders and ship operators, air lines, home buyers, pensioners, veterans and that amorphous but politically appealing group, the "little businessmen". State and local governments got into the act by demanding Federal assistance in the building of local roads, airports, sewage disposal plants, and schools. Recently, the "under developed" countries have joined the receiving line, asking their "fair share" of the inexhaustible supply of dollars which the Washington magicians are to conjure up.

To illustrate the profound change that has taken place in our thinking about the proper role of the Federal Government, let me quote President Cleveland's message to the Congress, dated Feb. 16, 1887:

"I return without my approval House Bill No. 10203, entitled 'An act to enable the Commissioner of Agriculture to make a special distribution of seeds in the drought-stricken counties of Texas, and making an appropriation of (\$10,000.) therefore!

"It is represented that a long-continued and extensive drought has existed in certain portions of the State of Texas, resulting in a failure of crops and consequent distress and destitution....

"And yet I feel obliged to withhold my approval of the plan, as proposed by the bill, to indulge a benevolent and charitable sentiment through the appropriation of public funds for that purpose.

"I can find no warrant for such an appropriation in the Constitution, and I do not believe that the power and duty of the General Government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit. A prevalent tendency to disregard the limited mission of this power and duty should, I think, be steadfastly resisted, to the end that the lesson should be constantly enforced that though the people support the Government the Government should not support the people...."

Some of you may find President Cleveland's notions a bit old-fashioned, but he had a combination of gumption and courage that is never too plentiful in political circles. Here was a Democratic President, standing on principles, refusing to use tax revenues to buy a few measly seeds for drought stricken farmers in a Democratic state. That was only seventy years ago, a short time in the life of a nation, but time enough for our government's policies to be changed almost beyond recognition.

Obstacles To a Free Economy.

A major explanation of our failure to achieve a completely free economy is that too many of us do not know what a free economy is, nor the steps to be taken if we are ever to have one. For example, our relative prosperity is too often explained by our "unlimited resources", our "American Know How" or the diligence of our workers.

The notion that North America is better supplied with natural resources per square mile than is Western Europe is

one of those persistent myths which economic geographers have not been able to destroy. Even if North America were more favored by nature than the other continents it would be something for which we should be humbly grateful rather than pretend that it was we who made it so.

As to our vaunted "Know How", the notion that our production techniques are unknown to Europeans is quite untenable. There is no "Iron curtain" which prevents such knowledge from flowing freely across the Atlantic. As for the diligence of our workers, that may help explain why we are more prosperous than some countries, but it will not explain why we are more prosperous than the peoples of Northern Europe, the only region with which comparisons should be made.

The economists whom I respect believe that our relative prosperity is chiefly due to the fact that our economy operates within the largest free trade area in the world. Goods move freely from any part of the United States to any other part, without tariffs, currency controls or any sort of governmental interference. This enables production to be concentrated where conditions are most favorable. A free market of continental proportions has brought forth our mass production industries in which the division of labor can be carried farther than in any other country, and for this reason the per capita productivity of our workers is the highest in the world.

What even a limited freedom can do for a nation's economy has been clearly demonstrated here and in Canada for

several generations, and, more recently in Western Germany. With such examples on both sides of the Atlantic it would seem that the under-developed and over-socialized countries could make an easy choice between free enterprise and collectivism. However, the uncommitted peoples will be confused as long as we attribute our economic achievements to our natural resources, our "know how" or the unusual diligence of our workers, instead of our free market, free enterprise system.

Those who ignore how freedom has contributed to our prosperity recall the old quip that Columbus, when he sailed from Spain, did not know where he was going; when he got there he did not know where he was; and when he returned did not know where he had been. There were obvious reasons for the ignorance of Columbus, but those who misread our history have only themselves to blame.

### Conclusions.

It is now accepted doctrine that the "cold war" is not to be the prelude to a hot one, but is primarily a struggle for men's minds. In view of the weapons now available to both sides, we must keep the struggle on that level if there is to be much hope of survival. What are the two ideologies now competing for world favor? As I see it, the choice which humanity is making is essentially between two economic systems, one based on the freedom of the individual and the other based on government ownership and control.

Certain groups, perhaps best represented by the Catholic Church, believe the struggle is essentially a theological

or philosophical one, with Christianity arrayed against what is called "Godless Communism." However, with all due respect for those who hold this opinion, I believe the outcome of the "cold war" will be determined chiefly by the world's opinion of the merits of the two economic systems involved.

What we are witnessing may be called a Great Debate of world-wide proportions, and we are more likely to win it if we stress our economic differences rather than our theological ones. We are living in a scientific age, and the Western World abounds with agnostics, rationalists and others who have little interest in religious controversy. They, together with the non-Christian millions of Asia and Africa, will remain indifferent to a conflict represented to them as one between Christianity and Rationalism. To state the issue in these terms might well foredoom our efforts to failure. If we are to convince the world that free enterprise is preferable to socialism, we must first understand these systems better than we now do. Repeating the cliché that the issue is between a slave economy and a free economy is not enough. In the Western World, including our own country, there is still so much of government ownership and control that our talk of freedom has a hollow sound.

From propaganda by word we must switch to propaganda by deed. For example, we must cut our agriculture free of the strangling controls which restrict production, deprive our farmers of foreign markets and take from us as consumers and taxpayers, some billions of dollars each year. We must also undertake the gradual elimination of all governmental restrictions on inter-

national trade until it is as free as domestic trade. Acts such as these will do more to convince others that we are committed to a free economy than will any amount of costly propaganda.

Finally, to achieve a completely free economy we must give more thought to the essentials of it than is now the fashion. Too many of us assume that we have finished the job, and we go about exchanging clichés and congratulations with each other, instead of observing how far short we are of the mark. Too much of the propaganda for our way of life seems designed for minds that are receptive to our "singing commercials". To achieve and maintain freedom, in economics or any other field, will require more intellectual effort than we have thus far given it.

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