

Chapter 15

FREEDOM OF ENTERPRISE IN AMERICA

INTRODUCTION

Agriculture, manufactures, commerce, and navigation, the four pillars of our prosperity, are the most thriving when left free to individual enterprise.

THOMAS JEFFERSON

I trust a good deal to common fame, as we all must. If a man has good corn, or woods, or boards, or pigs to sell, or can make better chairs or knives, crucibles or church organs, or even better mouse traps, than anybody else, you will find a broad, hard-beaten road to his house, though it be in the woods.

RALPH WALDO EMERSON

The business of America is business.

CALVIN COOLIDGE

AMERICA, Americans never grow tired of saying, is the land of opportunity.

Benjamin Franklin said it in the eighteenth century. America was the place for any man who desired to acquire property, succeed in commerce, become rich — and be happy. In “Advice to a Young Tradesman” he asserted that “the way to wealth . . . is as plain as the way to market” for any young man who was willing to cultivate industry and frugality. Those words were written in 1748; but he had not changed his mind some thirty years later, when, in a letter to George Washington composed ten years before his death, Frank-

lin wrote that “I must soon quit the scene, but you may live to see our country flourish, as it will amazingly and rapidly after the war is over; like a field of young Indian corn, which . . . the storm being past . . . recovers fresh verdure, shoots up with double vigor and delights the eye not of its owner only but of every observing traveler.”

The nineteenth century said it over and over: witness Horace Greeley, advising young men to “turn your face to the great West and there build up your home and fortune” — a remark often quoted as “Go West, young man, and grow up with the

country"; and Russell Conwell proclaiming in his popular sermon "Acres of Diamonds" that "to secure wealth is an honorable ambition, and is one great test of a person's usefulness to others. . . . I say, get rich, get rich!" This sermon, incidentally, was given by Conwell some 6,000 times all told, and is said to have earned him \$8 million, a fact that goes to show that fortunes can be made in America by telling Americans that fortunes can be made in America.

In 1941, nearly a century after Greeley and nearly 200 years after Franklin's promise to young men, former President Herbert Hoover was saying the same thing. President Franklin D. Roosevelt had just proclaimed that there were Four Freedoms that constituted the democratic ideal for which the free countries were fighting in their struggle against Fascism and Nazism — freedom of speech, freedom of religion, freedom from fear, and freedom from want. Hoover expanded this, declaring that there was a Fifth Freedom, especially precious to Americans and the main source of their strength: economic freedom. He meant, as he went on to explain, that America was the land of business opportunity, where everyone was free to make a fortune if he could, and where many still did.

1. THE BUSINESS OF AMERICA

THE NOTION that America is the land of business opportunity goes hand in hand, of course, with the notion — in President Calvin Coolidge's memorable words — that "the business of America is business." He said this in 1925; but others had made the same observation before him, and would make it later. Some applauded the fact, others lamented it; and a few denied that it was a fact. In any event, Coolidge's description of the American purpose and occupation has many precursors in the past.

In 1837, journalist Francis J. Grund re-



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Wood engraving inspired by writings of Franklin

marked that "business is the very soul of an American: he pursues it, not as a means of procuring for himself and his family the necessary comforts of life but as the fountain of all human felicity. . . . It is as if all America were but one gigantic workshop, over the entrance of which there is the blazing inscription: 'No admission here, except on business.'"

Perhaps there is a hint of criticism in these words of Grund's, a suggestion that another state of things might be preferred. No such doubt marks the statements of some later Americans who judged, like Coolidge, that our main business is and always has been business, and approved the fact. "Business underlies everything in our national life," declared Woodrow Wilson in 1912, "including our spiritual life. Witness the fact that in the Lord's Prayer, the first petition is for daily bread. No one can worship God or love his neighbor on an empty stomach." Wilson's emphasis on the fundamental utility of business was echoed by the dour journalist and author E. W. Howe. "If you can forgive the magnificence and vanity

of a successful politician," he wondered, "why are you unable to forgive a successful businessman? Every time I strike a match, or turn an electric button, or use the telephone, I am indebted to a businessman, but if in debt to any politician, I do not know it."

The 1920s witnessed the apotheosis of the businessman. Howe's point, that the businessman is more useful than the politician, was reiterated by many writers, who advocated a business "takeover" of the government of this and other countries. An exchange between two Sinclair Lewis characters is typical — as the author intended it to be. A small-town college professor tells George F. Babbitt that, in his opinion, "what the country needs, first and foremost, is a good, sound, businesslike conduct of its affairs."

Babbitt replies: "I'm glad to hear you say that! I certainly am glad to hear you say that! I didn't know how you'd feel about it, with all your associations with colleges and so on, and I'm glad you feel that way. What this country needs — just at this present juncture — is neither a college president nor a lot of monkeying with foreign affairs, but a good — sound — economical — business — administration, that will give us a chance to have something like a decent turnover."

Babbitt was published in 1922, and it described the mood of the decade before the Great Depression. "Civilization and profits go hand in hand," declared President Coolidge. Bruce Barton, co-founder of one of the most prosperous U.S. advertising agencies, had no fitter words in which to praise Jesus Christ — "The Man Nobody Knows," as Barton called him — than these: "He picked up twelve men from the bottom ranks of business and forged them into an organization that conquered the world." And Earnest Elmo Calkins, another advertising man, asserted a year before the

crash of 1929 that "the work that religion, government, and war have failed in must be done by business. . . . That eternal job of administering this planet must be turned over to the despised businessman."

Not all Americans, even when they conceded the devotion to business, were willing to laud it. At the same time that Grund was perceiving his inscription over the workshop of America, Washington Irving was referring ironically to "the almighty dollar, the great object of universal devotion throughout our land." Finley Peter Dunne made the same point three-quarters of a century later. "Th' American nation in th' Sixth Ward is a fine people," he had his character, Mr. Dooley, say. "They love th' eagle . . . on th' back iv a dollar."

In 1845 the influential Whig journal, the *American Review*, cautioned that although commercial success was one important result of our free and democratic society, making it possible for even the humblest to aspire to riches and providing liberty and some degree of economic security to the masses, the business spirit also destroyed "much of the beauty and happiness" of the nation. The spirit of commerce, the editorial went on to say, "is not natural to the human soul. It is good and hopeful to the interests of the race, but destructive to the happiness, and dangerous to the virtue of the generation exposed to it." The same point was being made a century later. "There are," Margaret Halsey wrote in 1952, ". . . other business societies — England, Holland, Belgium, and France, for instance. But ours is the only culture now extant in which business so completely dominates the national scene that sports, sex, death, philanthropy, and Easter Sunday are moneymaking propositions."

Other nineteenth-century figures joined Irving in criticizing the American devotion to business. Thoreau, for example, was blunt in his censure. "This world is a place

of business," he lamented in 1854. "What an infinite bustle! . . . It would be glorious to see mankind at leisure for once. It is nothing but work, work, work. . . . I think that there is nothing, not even crime, more opposed to poetry, to philosophy, ay, to life itself, than this incessant business." Many religious leaders concurred in this judgment. "Covetousness is the great sin of America," declared Theodore Parker in 1859. ". . . The priest of Mammon comes up with his 'Thus saith the Lord!' and the true God is bid to stand back." And Henry W. Foote deplored what he called "the prostitution of political power and influence for private gain" that had been the "normal characteristic of regular business" during the period after the Civil War.

Reformer Lincoln Steffens also attacked the demoralizing influence of "the commercialization of our politics." The commercial spirit is the spirit of profit, not patriotism, he wrote in 1904; "of credit, not honor; of individual gain, not national prosperity; of trade and dickering, not principle. . . . 'Business is business' is not a political sentiment, but our politician has caught it. He takes essentially the same view of the bribe [as the businessman]. . . . 'It is wrong, maybe,' he says, 'but if a rich merchant can afford to do business with me for the sake of a convenience or to increase his already great wealth, I can afford, for the sake of a living, to meet him halfway. I make no pretensions to virtue, not even on Sunday.'"

The attacks did not cease, even in the 1920s. The chorus of praise of business could not drown out the critics, who seemed to become all the more violent as their opponents became more enthusiastic. Lewis' Babbitt, though an apologist for business, is actually the archetype of the gregarious, amoral, Rotarian (H. L. Mencken once remarked that "the first Rotarian was the first man to call John the Baptist Jack"), greedy, "average" U.S. businessman,

who viewed the world, in all its beauty and multiplicity, as one big business office. E. E. Cummings put the case with unparalleled bitterness.

a salesman is an it that stinks Excuse

Me whether it's president of the you
were say

or a jennelman name misder finger isn't
important whether it's millions of other
punks

or just a handful absolutely doesn't
matter and whether it's in lonjewray

or shrouds is immaterial it stinks

a salesman is an it that stinks to please

And Arthur Miller was hardly less savage and bitter when, in one of the most celebrated plays of modern times, he created the character of Willy Loman, a salesman pathetically victimized by his own false values and the values of conformity, aggressiveness, and profit that characterized the business world in which he tried to succeed. Yet Miller wrote sympathetically, too, of Willy's plight.

"Nobody don't blame this man," he had another character say after Willy's death. "You don't understand: Willy was a salesman. And for a salesman, there is no rock bottom to the life. He don't put a bolt to the nut, he don't tell you the law or give you medicine. He's a man way out there in the blue, riding on a smile and a shoestring. And when they start not smiling back — there's an earthquake. And then you get a couple of spots on your hat, and you're finished. Nobody dast blame this man. A salesman is got to dream, boy. It comes with the territory."

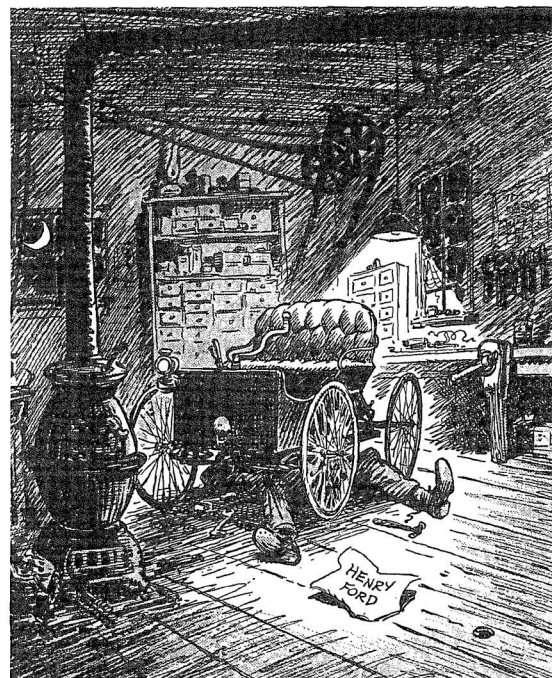
Must we say, then, that America is wholly, or essentially, a business society? Some Americans, at least, have felt that it was not

so. Coolidge's famous assertion that the business of America was business was made in a speech to the Society of American Newspaper Editors in Washington, January 17, 1925. But Coolidge did not stop there. He went on — although most people have forgotten that he did — to add that "the chief ideal of the American people is idealism. I cannot repeat too often that America is a nation of idealists."

President Benjamin Harrison had said much the same thing. "Have you not learned," he asked, "that not stocks or bonds or stately homes, or products of mill or field are our country? It is the splendid thought that is in our minds." President Wilson made a similar declaration. "America is not a mere body of traders; it is a body of free men. Our greatness is built upon our freedom — is moral, not material. We have a great ardor for gain; but we have a deep passion for the rights of man." And he remarked in another speech that "sometimes people call me an idealist. Well, that is the way I know I am an American. America is the only idealistic country in the world."

America is "a willingness of the heart," said F. Scott Fitzgerald, in a wonderful phrase. Ezra Pound did not disagree, and even used the same word. "Our American keynote," he wrote, is ". . . a certain generosity; a certain carelessness, or looseness, if you will; a hatred of the sordid; an ability to forget the part for the sake of the whole; a desire for largeness; a willingness to stand exposed."

Mary McCarthy tried to sum it up when she wrote in 1953 that "familiarity has perhaps bred contempt in us Americans: until you have a washing machine, you cannot imagine how little difference it will make to you. It is still a European belief that money brings happiness, witness the bought journalist, the bought politician, the bought general, the venality of much of European



Courtesy, Vaughn Shoemaker, "Chicago's American"

"Achievement knows no time clock"; Shoemaker, 1947

literary life, inconceivable in this land of the dollar. It is true that America produces and consumes more cars, soap, and bathtubs than any other nation, but we live among these objects rather than by them. America builds skyscrapers; Le Corbusier worships them. Ehrenburg, our Soviet critic, fell in love with the Check-O-Mat in American railway stations, writing home paragraphs of song to this gadget — while deploring American materialism. When an American heiress wants to buy a man, she at once crosses the Atlantic. The only really materialistic people I have ever met have been Europeans."

Do remarks such as these of Wilson, of Pound, of Miss McCarthy really contradict the thesis that America, at bottom, is a business civilization? Perhaps not. America remains the place where, when you meet someone for the first time, he asks you what you *do*, not what you *are*. (Franklin said this first, nearly two centuries ago.) The social status of Americans, by and

large, is determined by their business role: their job rather than their ancestors, their acquired skills rather than their inheritance. As Ch. 9, *EQUALITY* points out, the vast majority of Americans still belong to the middle class, which is traditionally that of the businessman. That the United States is fundamentally a business society is affirmed rather than denied by the critical minority — the mavericks and strays who, in order to play their special parts, tend to divorce themselves from the mainstream of U.S. life. They are not businessmen, to be sure; but neither are they an integral part of the American scene, as artists, for example, tend to be in other lands. Their very alienation is the proof of Coolidge's contention that our main business is business. The pursuit of happiness, in America, has traditionally been the pursuit of wealth; success means financial success; artists are more admired if they make money than if they create beautiful and memorable works.

From one point of view, that of artists and similarly disaffected groups, the situation is perhaps lamentable. But it must be remembered that to much of the workaday world it is not so; to such, America, *because* it is a business civilization, is a civilization offering freedom, that is, economic freedom. Man must eat in order to live; he must be clothed and sheltered. To the great majority, moved by such primal truths, America is still the place to go to, the place to grow up in.

It may be that in the United States the choice of careers is limited, that it is harder or more socially unacceptable to be other than a businessman than elsewhere. But if one is eager to be a businessman, or merely willing to be one, it probably is the best place in the world to try one's hand. And there are less rewarding careers. [For further discussion of some of the matters treated here, aside from Ch. 9: *EQUALITY*, see also Ch. 18: *STANDARD OF LIVING*.]

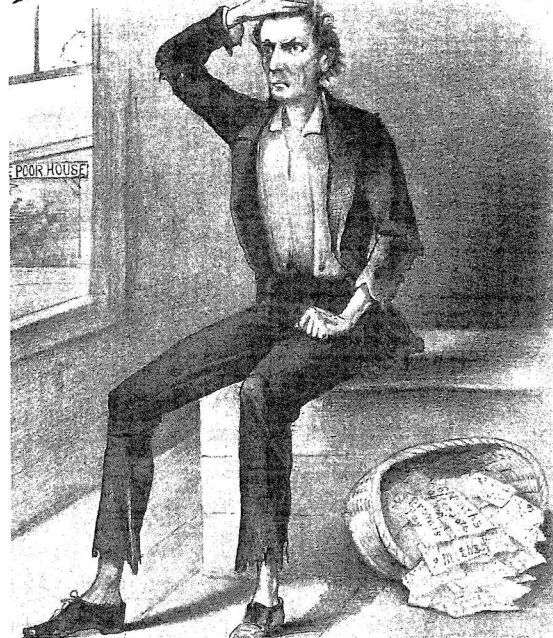
2. CLASSICAL CAPITALISM: LAISSEZ FAIRE AND ITS CRITICS

OUR ECONOMY is said to be based on freedom of enterprise, and, relative to the economies of many other countries, this is undoubtedly true. But the free enterprise system under which we live at the present time is not as free as it once was, or at least it is free in different ways or in a different sense. One of the main problems in understanding the free enterprise system as we see it in operation today is to divest it of the rhetoric that it has inherited from an earlier age — the age of *laissez faire*.

The classic statement of the economic policy known as *laissez faire* may be traced to Adam Smith, whose great work *The Wealth of Nations* was published in the same year as our Declaration of Independence. Smith argued mainly for free international trade, as against the protectionist "mercantile" policy of the European nations of his time; it was his contention that the wealth of nations, and particularly of England, would be advanced if all restrictions on international trade were relaxed and the free international market allowed to operate according to what he conceived as its own natural laws. But in the process of arguing for such a policy among nations, he made certain statements about the relations of individual men within a nation that became economic dogma in the century after his death. Thus, although *laissez faire* was not actually instituted as a general policy in his time, and although it is questionable whether he understood all of the practical effects that the establishment of such a policy would entail, Smith remains in an important sense the father of the "liberal" economic policy that was dominant in the Western world during most of the century between 1830 and 1930.

"Every system which endeavors," Smith wrote, "either by extraordinary encourage-

I GAVE CREDIT



Library of Congress

Lithograph by Currier and Ives, 1870

I SELL FOR CASH



ments to draw toward a particular species of industry a greater share of the capital of the society than what would naturally go to it, or, by extraordinary restraints, force from a particular species of industry some share of the capital which would otherwise be employed in it, is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society toward real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labor.

"All systems of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring both his industry and capital into competition with those of any other man, or order of men."

"The obvious and simple system of natural liberty" — these words defined a con-

cept that grew more and more compelling in the decades after the publication of Smith's work. What is more, it was a concept that inspired the Founding Fathers of our nation. Jefferson, in the Declaration of Independence, wrote that the pursuit of happiness (the original phrase had been "the pursuit of property") was a natural and inalienable right; our Constitution implied, in its Preamble, that the general welfare would be promoted by such a free pursuit.

The concept was emphasized by Alexander Hamilton, who asserted in 1791 that "it can hardly ever be wise in a government to attempt to give a direction to the industry of its citizens. This, under the quick-sighted guidance of private interest, will, if left to itself, infallibly find its own way to the most profitable employment; and it is by such employment that the public prosperity will be most effectually promoted. To leave industry to itself, therefore, is, in almost every case, the soundest as well as the simplest policy." And Jefferson, in his

first message to Congress, in 1801, declared that "agriculture, manufactures, commerce, and navigation, the four pillars of our prosperity, are the most thriving when left free to individual enterprise."

Despite the enthusiasm of men such as Jefferson and Hamilton, however, it was not until after they had passed from the scene — roughly, in the 1830s — that the three main tenets of laissez faire policy were recognized and to some extent implemented in the American economy. These three tenets were: (1) that labor should find its price on the market, (2) that the value of money should be subject to an automatic mechanism, and (3) that goods should be free to flow from country to country without hindrance or preference. Laissez faire, in short, stood for a labor market, the gold standard, and free trade.

The basic notion underlying the first tenet was that labor is a commodity, and simply a commodity — a proposition that most people would now dispute. As such, and in order that the market might operate according to its own natural laws, labor should not be hindered in any way from "finding its price." This meant, in effect, that the value of a man's work was in no way determined by his needs (the idea of a "living wage" is thus completely opposed to the classical theory of laissez faire); a man's wages were instead totally dependent on the price he could demand in the marketplace, and if they fell below what he could live on, that was no one's fault, especially not the fault of the employers who themselves were subject to the market's laws.

It was this notion that made possible an attitude toward labor, and especially the unemployed, that now seems to us (and that seemed to Karl Marx) cruel and unfeeling. The so-called Reform Bill of 1832 in England effectually abolished the Poor Laws that had provided some support for the needy and the unemployed in earlier times,

on the grounds that to support the unemployed was to undermine the free market. In America, many men gave voice to the idea, especially the so-called Social Darwinists who, after the publication of Darwin's classic work on evolution, became convinced that the law of competition applied in the social world with as much force as it did in the natural.

Thus Andrew Carnegie, for example, in his famous essay on wealth of 1889, even with all his undoubted compassion for his fellowmen, could nevertheless write: "Whether the law [of competition] be benign or not, we must say of it . . . it is here; we cannot evade it; no substitutes for it have been found; and while the law may sometimes be hard on the individual, it is best for the race, because it ensures the survival of the fittest in every department. We accept and welcome, therefore, as conditions to which we must accommodate ourselves, great inequality of environment; the concentration of business, industrial and commercial, in the hands of the few; and the law of competition between these, as being not only beneficial but essential to the future progress of the race."

The notion underlying the second tenet — that the value of money should be controlled by an automatic mechanism, such as the gold standard — was that the market could not operate according to its own laws unless all nations were prohibited from manipulating their currency, instead abiding by a single international standard according to which all commodities, including labor, would find their price. Each nation might have its own currency or medium of exchange, but the value of the dollar, or the pound, or the franc would be set by the price of gold, which might fluctuate, but which would fluctuate equally and at the same time in all countries.

In other words, an internationally recognized standard for money — it might have been silver, or platinum, or even wood, as

long as it was universal — was the single fixed point in the endlessly changing market. It was the axis, as it were, itself not free, around which everything else turned freely. For without such a standard, neither labor nor trade could ever find *its* price — all that could be found would be different national prices. But *laissez faire* meant nothing if it did not mean an absolutely open market all over the earth.

Like the idea that labor is a commodity, the adoption of the gold standard resulted in hardship and misery for millions of people, both in Europe and America. The argument for it was that the free market could not exist without it and that prosperity could not exist without the free market. Nevertheless, there were some who objected, none more memorably and eloquently than William Jennings Bryan who, in opposing the economic rule of the Eastern financiers, coined one of the most famous sentences in American political history. In the speech that won him the Democratic nomination in 1896, Bryan concluded by crying out against the gold standard that “you shall not press down upon the brow of labor this crown of thorns. You shall not crucify mankind upon a cross of gold.”

The third tenet of classic *laissez faire* policy — no restrictions on trade — was traditionally the most important of all, although, in fact, it was never effectually implemented in America. Throughout the nineteenth century, the high tariff policies of successive administrations constituted a flat denial of the dogma that no nation should protect its own industry against foreign competition. However, while the Americans abrogated strict *laissez faire* in their foreign economic policy, they seemed to support it all the more enthusiastically in matters of interior economic policy. Indeed, the essence of American liberty seemed to be involved in the claim, often voiced, that government should institute no controls whatever on commerce, industry, and manufacturing. To do so, it appeared, would be to deny the

very freedoms on which the nation was based.

So it appeared; but practice was very different. The classical *laissez faire* theory was never fully applied in American economic life — nor, its modern critics claim, could it have been because of its inherent contradictions. One of these became clear at the end of the nineteenth century when “liberal” (*i.e.*, pro-*laissez faire*) economists, on the one hand, supported antitrust legislation and, on the other hand, opposed the trade union movement.

Theoretically, a *laissez faire* apologist should oppose antitrust legislation, since on the face of it such laws deny to capital the power to manipulate the market and supposedly thus hinder its “natural” operation. Similarly, there is no theoretical reason why labor should not combine to manipulate the market for its services in precisely the same way. As economist Karl Polanyi put it in 1944, “Labor is supposed to find its price on the market, any other price than that so established being uneconomical. . . . Consistently followed up, this means that the chief obligation of labor is to be almost continually on strike.”

In fact, however, liberals went against their theoretical principles in both realms — and all in the name of *laissez faire*! The reasoning was that the manipulation of the market either by labor or by capital would produce a situation in which the market was no longer free; government was therefore required to step in and keep it free. Actually, Adam Smith had said the same thing, insisting that the main function of government was to insure that no segment of the economy “cornered” any part of it. But the concession that a segment could do this was also a concession that the market was not, or at least could not remain, “naturally” free — which was to deny the most basic tenet of all.

This and other contradictions in *laissez faire* doctrine have led some contemporary economic historians to assert that the Amer-

ican economy was never really ruled by the theory, despite its belief that it was so ruled and its constant reiteration of the laissez faire principles. Be that as it may, there is no doubt that the American economic system during the nineteenth century was more laissez faire than it is today — sufficiently so to come in for sharp attacks by those who felt that the doctrine was absurd, immoral, or both.

Typical of the notion, quite widely held in the latter part of the nineteenth century, that laissez faire was somehow immoral because it assumed that man is essentially an economic and not a spiritual being, were some remarks of Professor Richard T. Ely in 1885. "The doctrine of laissez faire is unsafe in politics and unsound in morals," he charged; ". . . it suggests an inadequate explanation of the relations between the state and the citizens. . . . It is difficult to define laissez faire categorically, because it is so absurd that its defenders can never be induced to say precisely what they mean. Yet it stands for a well-known, though rather vague set of ideas, to which appeal is made every day in the year by the bench, the bar, the newspapers, and our legislative bodies. It means that government, the state, the people in their collective capacity, ought not to interfere in industrial life. . . . It means that the laws of economic life are natural laws like those of physics and chemistry, and that this life must be left to the free play of natural forces."

However, Ely went on to say, it is ridiculous to hold that "this industrial world is governed by natural laws," that "these laws are superior to man," and that we ought to "let alone the work of God." The market is not "natural"; it is just as much an artifact as the commodities that flow through it. Man is not solely an economic animal; nor can his labor properly be considered as a commodity.

Another eloquent attack on laissez faire is to be found in George Fitzhugh's *Sociology for the South, or the Failure of Free Society*

(1854), a work that, in order to defend the South's "peculiar institution" of slavery, undertook to demolish the doctrine of free competition — the "peculiar doctrine" of the North. Fitzhugh rightly saw that the policy of laissez faire was inseparably connected with the notion of "*pas trop gouverner*" ("minimum government"), and he saw as well that both ideas "are at war with all kinds of slavery, for they in fact assert that individuals and peoples prosper most when governed least." He traced the pair of linked ideas to Smith's eighteenth-century work and declared that, although Smith might never have heard the adage, the saying "Every man for himself, and devil take the hindmost . . . comprehends the whole philosophy, moral and economical, of the *Wealth of Nations*."

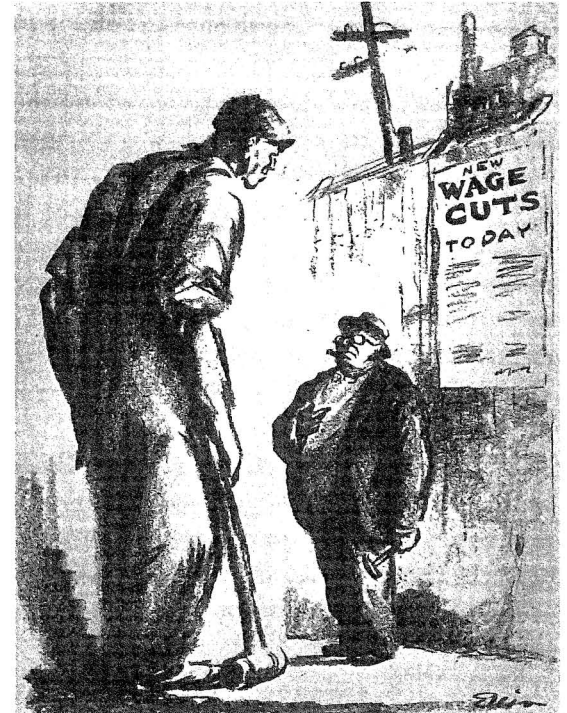
That was all very well, Fitzhugh went on to say, for those in the forefront — but what about "the hindmost"? What about the poor, simple Negroes, inferior in inherited natural ability, as Fitzhugh believed them to be, as well as in acquired social talents? Would they not — to say nothing of many white men — be bound to suffer miserably under "freedom"? Was not a benevolent paternalism — *i.e.*, slavery — preferable to a system that insured that the poor, the ignorant, the "disadvantaged" (as we now call them) would eternally bring up the rear of the social parade? Could a man eat freedom? And if he were forced to engage in competition where he would necessarily and inevitably lose out, was he really free?

According to Fitzhugh the doctrine of laissez faire, involving as it did the notion of *pas trop gouverner*, was even more vicious. "The love of personal liberty and freedom from all restraint," he declared, "are distinguishing traits of wild men and wild beasts. Our Anglo-Saxon ancestors loved personal liberty because they were barbarians, but they did not love it half so much as North American Indians or Bengal tigers, because they were not half so savage. As civilization

advances, liberty recedes; and it is fortunate for man that he loses his love of liberty just as fast as he becomes moral and intellectual." Indeed, so untrue is it that he prospers best who is governed least, that the very opposite is true. "The best-governed countries, and those which have prospered most, have always been distinguished for the number and stringency of their laws. Good men obey superior authority, the laws of God, of morality, and of their country; bad men love liberty and violate them." The inevitable conclusion was that "the world wants good government and a plenty of it — not liberty." By the same token, it did not want, or need, *laissez faire*.

The kind of attack on *laissez faire* that Fitzhugh represented was an attack from the point of view of a society that was on the way out, that had its own contradictions and could not, or at least did not, endure. Of more significance, perhaps, were the attacks that stemmed from another quarter — from radical political and economic thinkers, in large part influenced by the new and at the time exciting thought of Karl Marx; from men who judged the world by Christian standards and who insisted that economic life, like every other aspect of life, must conform to some extent at least to the dictates of the gospels; and, perhaps most important, from those who felt themselves to be the losers in the world created by *laissez faire*.

Men like Eugene Debs, the representative of the oppressed urban proletariat, and William Jennings Bryan, the representative of the oppressed farmers, hated *laissez faire* because it was used by the oppressors to justify their oppression. Were workers forced to accept jobs at starvation wages merely because they had no reserves and could not hold out for higher pay? No matter, that was the law of competition, which was good because it was natural. Were farmers forced to buy dear and sell cheap, and to toil from dawn to dark into the bargain? No matter again — it was the impersonal



Brown Brothers

"What helps business helps YOU"; Fred Ellis, 1938

operation of the market, which heeded no man's distress but benefited all.

The attacks themselves did not go unopposed. But the most telling charge against *laissez faire*, and the one, probably, that was most influential in bringing about its downfall in the twentieth century, was represented by the remarks of Ely quoted above. His main point was not that *laissez faire* was cruel and inhuman, though he conceded that, and that it caused the misery of millions while promoting the freedom and happiness of a few, though he conceded that, too. His main complaint, as we have seen, was that the doctrine was inherently self-contradictory. *Laissez faire* was *not* natural, he and other forward-looking economists of his time insisted; on the contrary, it was so artificial that it required for its operation either a condition of anarchy, which went against man's very nature, or a condition of stringent and constantly shifting government controls to keep the market "free," which was equally unnatural, for men cannot be forced to be free. In other words, not only was *laissez faire* fundamentally opposed to society's, and humanity's,

deepest needs, but it was also absurd and ridiculous and, worst of all, utopian, in its own right. [For further discussion of some of the matters treated here, see Chs. 16: CORPORATION and 17: WORK AND WORKERS.]

3. THE RETREAT FROM LAISSEZ FAIRE

IN OUR CENTURY, most economists and political figures, including so-called conservatives, agree on a number of points about laissez faire. They agree that the coming into dominance of laissez faire economics during the latter part of the nineteenth century was an exception to our general tradition; and they agree that even then there was massive government support of one segment of the economy — business. They agree that throughout most of our history our economy has been a mixed one, and they point to such seemingly disparate examples as the secular Puritan commonwealth as it developed in the late seventeenth and early eighteenth centuries, to the eighteenth-century mercantilist economy of the colonies as run from London, and to Henry Clay's "American System" of the 1830s and 1840s. And they agree, too, that in modern times there has been a sharp reversal of the trend that manifested itself in the forty or fifty years after the Civil War, and that the American economy is now, and will probably continue to be for a long time in the future, very different from anything conceivable to a classical economist.

However, there the agreement seems to stop. Above all, there is radical disagreement on what policy has replaced traditional laissez faire, in other words, on what kind of economy we actually have today — and what kind we should have.

Herbert Hoover, for one, asserted in 1922 that "we have long since abandoned the laissez faire of the eighteenth century — the notion that it is 'every man for himself and the devil take the hindmost.' We aban-

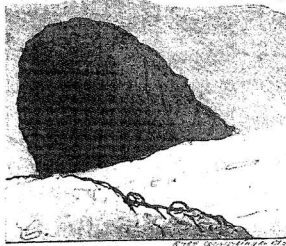
doned that when we adopted the ideal of equality of opportunity — the fair chance of Abraham Lincoln. We have confirmed its abandonment in terms of legislation, of social and economic justice — in part because we have learned that it is the hindmost who throw bricks at our social edifice, in part because we have learned that the foremost are not always the best nor the hindmost the worst." In other words, Hoover was saying, laissez faire is both unsafe and unjust, and he suggested instead that our economic system be called "American individualism," the doctrine that "each individual shall be given the chance and stimulation for development of the best with which he has been endowed in heart and mind."

Historian Charles A. Beard agreed with Hoover that laissez faire had been abandoned, but he denied that it should be replaced by "individualism," which he characterized in much the same terms as Hoover had applied to laissez faire itself. "The cold truth is," Beard wrote in 1931, in the midst of the worst depression the country had ever seen, "that the individualist creed of everybody for himself and the devil take the hindmost is principally responsible for the distress in which Western civilization finds itself. . . . Whatever merits the creed may have had in days of primitive agriculture and industry, it is not applicable in an age of technology, science, and rationalized economy." Instead, Beard declared, "every thoughtful businessman who is engaged in management as distinguished from stock speculation knows that stabilization, planning, orderly procedure, prudence, and the adjustment of production to demand are necessary to keep the economic machine running steadily and efficiently."

In *The Modern Corporation and Private Property* (1932), A. A. Berle and Gardiner C. Means argued similarly that the terms and ideals of nineteenth-century defenders of laissez faire were seen to be glaringly inadequate when they were applied to the great American business corporations of

OHIO
MAINE
FLORIDA
VERMONT
GEORGIA
KENTUCKY
MARYLAND
DELAWARE
NEW JERSEY
CONNECTICUT
PENNSYLVANIA
RHODE ISLAND
NEW HAMPSHIRE
MASSACHUSETTS
NORTH CAROLINA
NEW-YORK.

How this Free Trade! Be it understood
the world have lived and long shall live!



FUNERAL OBSEQUIES OF THE FREE-TRADE.

This unfortunate youth died of Home Consumption, was buried at Washington in Nov. 1846. He was carried to the grave by Polk, Dallas, Buchanan & Adams. The chief mourners were Sumner, Ritchie, Calhoun, Mr. Duffie, Sevier, Rhea, Dixson, Lewis &c. The cause largely to be credited to the Whigs. H.R. Robinson Lith. 142 N. 3rd St. N.Y.

Library of Congress

Lithograph by H. R. Robinson, 1846, opposing the tariff act passed by Polk's administration

their — and of our own — day. "Private property, private enterprise, individual initiative, the profit motive, wealth, competition" — the terms, according to Berle and Means, most often employed by laissez faire economists — "have ceased to be accurate, and therefore tend to mislead in describing modern enterprise as carried on by the great corporations."

President Franklin D. Roosevelt made many of the same points, as did the spokesmen for his New Deal administration — and as had President Theodore Roosevelt before him. That is not surprising, for FDR and the New Deal are well known for their attacks on the "robber barons" and the "economic royalists" who flourished, according to their view, in the artificially nurtured jungle of an earlier day. What is more surprising, perhaps, is to find Senator Robert A. Taft saying much the same thing, although in different terms.

In an article published in *Fortune* in 1949, Taft, then Republican leader of the Senate and generally conceded to be the

foremost conservative politician in the land, reaffirmed the principles that, he said, had always constituted Republican policy and ought to continue to do so. These included, first and preeminently, individual liberty — freedom of speech and expression, freedom to spend one's earnings as one wishes, freedom to live where one pleases, freedom to educate one's children as one desires, and so forth. Furthermore, Taft went on to say, liberty is also "the freedom of men in industry to run their businesses as they think best." But he added, significantly — "so long as they do not interfere with the rights of others to do the same."

Taft warned that "the totalitarian theory that government must plan and direct and control dominates the thinking of today throughout the world, and has made great headway here in the United States without a realization of the fact that it means the end of individual liberty." He also asserted that "a party that believes in liberty will impose . . . limitations [on business and industry] only to the extent that they are ab-

solutely necessary." But the important point to note is that Taft felt some limitations *were* necessary and "must be imposed by the state to protect the liberty of others," adding that this would be more and more true as the economy became more complex. The concession that any controls are necessary — even if it is insisted that they be kept to a minimum — and the additional concession that as society grows more complex more controls will be needed is of course to give up the core of the traditional doctrine of *laissez faire*.

Indeed, U.S. history since World War I shows, whatever the economists and politicians may say, that we have in fact retreated far from *laissez faire*. Keeping in mind the three basic, traditional tenets of the doctrine, it is obvious enough that labor is no longer officially regarded merely as a commodity, even if some employers seem to retain this outmoded notion; the country went off the gold standard in 1933 and has stayed off ever since; and international trade is, for both political and economic reasons, still not free. (The tariff is lower than it has been for a century, but at the same time trade is totally prohibited with many of the nations of the world.)

These three departures from the traditional policy are of course interconnected, but none is probably more significant than our repudiation of an international monetary standard at the bottom of the Great Depression. It is not surprising that the event occurred then, for the retention of the gold standard meant that those who controlled the money market to a large extent determined American economic policy, and it required a worldwide financial disaster to make them loose their hold. As has often been said, the financial market rules by panic; the cycles of boom and bust are of its very essence. For a century the situation was allowed to develop despite the hardships it helped to cause. But in the 1930s, in the United States as elsewhere in the



Library of Congress

"Commercial might versus Divine Right" by Keppler

world, the hardships became too great for people to accept. Millions of unemployed in all the capitalist countries could no longer be ignored; something had to be done. Different things were done in different countries; much of the world turned to fascism as a solution for the manifold ills of this greatest of financial panics; America, avoiding that, accepted more stringent controls of its internal economy than it had accepted since before the Revolution. [For another discussion of some of the matters treated here, see Ch. 13: PRIVATE PROPERTY.]

4. FREE ENTERPRISE TODAY

ARE WE FORCED TO CONCLUDE, then, that *laissez faire*, and with it the free enterprise system of which it is in some sense the model, has been totally and finally abandoned in twentieth-century America? If we mean by *laissez faire* the narrow, "devil

take the hindmost" policy of our grandfathers, the consensus is that the answer is yes. But that does not mean — or does not necessarily mean — that we have become a totalitarian state. There are other alternatives to laissez faire beside totalitarianism — *i.e.*, state socialism, on the one hand, or fascism, on the other hand. There is a middle ground between laissez faire, a situation in which government exercises no control over economic matters, and totalitarianism, a situation in which government not only exercises rigid control but also owns some or all of the instruments of production. This middle ground is occupied by countries like France, England, West Germany, and especially the United States at the present time — countries that have a measure of government control of business, but that, on the whole, permit extensive freedom to business as long as positive harm is not done to the people and to the social fabric.

Thus the idea of free enterprise may be saved if we understand its wider implications and applications — if we understand that modern free enterprise is close to being the same as liberal democracy. There is such a thing, in short, as a free enterprise, capitalist, welfare state. That is what the United States appears to be today.

More needs to be said, of course; for the economy, like everything else in our country, is changing rapidly, and we want to know what it is becoming as well as what it is. The Anglo-American tradition of economic writing, as John Kenneth Galbraith has observed, tends to be normative — that is, to contain predictions and prophecies, as well as analyses. And it is indeed true that prophecies of where the economy is headed — and where it should be headed — are numerous.

The distinguished conservative economist Henry C. Simons wrote one in 1945, under the title "A Political Credo" (published posthumously in 1948). The title itself was significant; Simons was saying that the problems, as well as the virtues, of laissez

faire free enterprise are as much political as economic, if indeed they are not more so. He saw the fundamental notions of laissez faire as consisting not only in economic principles but also in general political and social principles of much greater import. These notions are, preeminently, those of *order* and of *decentralization*.

Order — from another point of view, government — is necessary, Simons declared, to social life in today's world. If men could ever have gotten along without government, they cannot now, when society has become almost unimaginably complex. But this does not mean, he argued, that government must be centralized. Society, particularly free society, "must be organized largely through voluntary associations. Freedom to associate or to dissociate, to belong or not to belong, especially in economic activities, is an essential liberty — and will remain so, short of the millennial 'economy of abundance.'" Freedom of association "implies also coercive association, that is, strong government and an elaborate, stable, confining structure of law." But strong government does not have as its goal forcing people to do what they do not want to do. Instead, its basic purpose is keeping them from mutual harm.

The fundamental principle of modern free enterprise, then, is this: In the context of strong government and a confining structure of law, maximum decentralization of functions, both political and economic, should be maintained. The least or smallest organization that can accomplish a given end should always be allowed to accomplish it, even at the cost of some waste of effort through duplication — even at the cost of inefficiency.

In fact, Simons maintained, not much efficiency will be lost, and some may even be gained. "The notion that large governmental units are more efficient than small ones is . . . wrong but hard to attack, because efficiency is far more ambiguous or deceptive in meaning than is corruption. Large

administrative units may seem more efficient than small ones, if only because they contain so many people employed to increase efficiency rather than to produce substantive services. But administrative efficiency in government, at best, is a false god and a dangerously static good." The argument applies to large corporations as well as to large governments. "In a shortsighted view they are instruments of progress; but they lack the creative powers of a multiplicity of competitive smaller units. . . . Free government is always worth some cost in terms of 'good' or efficient government."

There is properly only one truly central government function, Simons said, and that is external defense or war. The central government must retain a "monopoly of violence"; only it may be allowed to use, and to authorize the use of, force. At the same time, war is "the great threat to [libertarian] society." Once more, only decentralization can avert it, if anything can; for highly centralized governments, driven by aggressive nationalist feelings, not only leave their people in relative misery but also constitute continuing threats to their neighbors, threats which must be or at least tend to be met by actions in kind.

The proper function of state, and especially federal, governments, then, "is largely not that of providing services but that of providing the framework within which business, local-public and private, may effectively be conducted. This framework may, of course, include a vast amount of services, provided they are not final services but services rendered primarily to enterprises." That is, government must insure, by whatever means are necessary (but they should always be least or minimal means), that freedom, both political and economic, continues to exist. Only by calling upon the utmost diversity of opinion may government be well conducted; and only by allowing the utmost diversity of enterprise may prosperity be advanced.

Centralization, in short, "is a product of



Courtesy, Karl Hubenthal, "Los Angeles Herald-Examiner"

"Your slip is showing, Dearie"; cartoon by Karl Hubenthal, 1967

disorder." It is a desperate measure; "in advanced societies it is retrogression, induced by disasters." Moreover, "to recognize that an orderly world would be highly decentralized (if only by definition) is to see something of how the firm substance may gradually be realized."

Perhaps no economist of modern times disagrees more completely with the view expressed in these remarks of Simons than Galbraith, who has developed his own views in several books, notably *The Affluent Society* (1958) and *The New Industrial State* (1967). He may even have been thinking of Simons when, in the latter book, he referred to the fact that "the voice of the man who wishes government to do less for less is still heard. By especially accommodating philosophers it is still held that the state should minimize its services. Otherwise, it abridges the right of the individual to decide his purchases for himself."

Galbraith probably does not disagree with Simons on ends; they may well have a

vision of the same good society more or less far in the future. But they disagree radically on means. Simons, as we have seen, was for decentralization of government, for a minimization of government functions. Galbraith proposes just the opposite — a maximization of government functions, in realms, moreover, into which government does not now reach.

The reason, in his view, is that business, or the technostructure, or the free enterprise economy, or whatever one wishes to call it — Galbraith himself comprises all under the term “industrial system” — has brought the “supply of capital, and in substantial measure also its labor supply, within its control, and thus within the ambit of its planning. And it has extended its influence deeply into the state. Those policies of the state that are vital for the industrial system . . . are believed to be of the highest social urgency. This belief accords with the needs of the system.”

The means by which the industrial system manipulates the society in which it is embedded are powerful and far-reaching. The economy under which we live accords us extraordinary gifts; “not only has [it] eliminated poverty for those who have been drawn into its embrace but it has also greatly reduced the burden of manual toil.” But it exacts high payment in return. “The system, if it accommodates to man’s wants, also and increasingly accommodates men to its needs. And it must. This latter accommodation is no trivial exercise in salesmanship. It is deeply organic. High technology and heavy capital use cannot be subordinate to the ebb and flow of market demand. They require planning; it is the essence of planning that public behavior be made predictable — that it be subject to control.”

The management to which we are subject, Galbraith observed, “is not onerous. It works not on the body but on the mind. It first wins acquiescence or belief; action is in response to this mental conditioning and

thus devoid of any sense of compulsion. . . . We are no less managed because we are not physically compelled. On the contrary, though this is poorly understood, physical compulsion would have a far lower order of efficiency.”

In other words, the advocacy by men like Simons of decentralization of both business and government is about as vain and futile as such things can be. Fundamentally opposed to decentralization is the industrial system itself, which is centralized in its essence. In effect, we are investing nearly a trillion dollars a year in the system (the gross national product was approaching that figure at the end of the 1960s), and sums of that order have almost overwhelming social force. Urging decentralization in the face of such power is like threatening an atomic bomber with a pop gun.

For Galbraith, there is only one force in modern life that has any chance at all against the power of the industrial system and that is centralized government. Local or state governments are relatively ineffectual, and besides, at the present time, they are almost hopelessly demoralized and disorganized. He therefore called for more centralization of government rather than less. The prize, as it was for Simons when he urged the opposite course, was freedom.

“If we continue to believe that the goals of the industrial system . . . are coordinate with life,” wrote Galbraith, “then all of our lives will be in the service of these goals. What is consistent with these ends we shall have or be allowed; all else will be off limits. . . . All other goals will be made to seem precious, unimportant or antisocial. . . . What will eventuate, on the whole, will be the benign servitude of the household retainer who is taught to love her mistress and see her interests as her own, and not the compelled servitude of the field hand. But it will not be freedom.”

The authors who have been discussed above raise important questions about the

relationship between free enterprise in America and American freedom in general. Is there in fact any connection between them? If so, is individual freedom the source of economic freedom, or is economic freedom somehow the root of political liberty? Or is there no connection, *i.e.*, does political freedom have nothing whatever to do with economic policy?

Various answers have been given to these questions at different times in our history. Probably most Americans have held that there is a close relationship between free enterprise and freedom in general, but they have disagreed as to which comes first. In the nineteenth century, Emerson declared that "we rail at trade, but the historian of the world will see that it was the principle of liberty; that it settled America, and destroyed feudalism, and made peace and keeps peace; that it will abolish slavery." In another place he wrote that "the greatest meliorator of the world is selfish, huckstering trade"; and both statements are expressions of the traditional *laissez faire* doctrine.

Equally typical was the argument of William Graham Sumner in favor of free competition. Competition, Sumner asserted in 1882, is a law of nature. Nature is neutral, and submits to him who most energetically assails her. "If, then, there be liberty," he wrote, "men get from her just in proportion to their works, and their having and enjoying are just in proportion to their being and their doing." If we do not like this "system of nature" there is only one thing we can do. "We can take from the better and give to the worse. . . . We shall thus lessen the inequalities. We shall favor the survival of the unfittest, and we shall accomplish this by destroying liberty. Let it be understood," he concluded, "that we cannot go outside of this alternative: liberty, inequality, survival of the fittest; not-liberty, equality, survival of the unfittest." He added that the former was desirable and

progressive, the latter undesirable and retrogressive. Thus freedom of enterprise was not only natural but underlay the fundamentally progressive national ideal.

Others agreed that competition was somehow "natural," but denied that it was the American, or even the human, ideal. Sociologist Lester Ward, for example, pointed in 1893 to some of the ill effects of unrestrained competition in the economic sphere. "The competition which we see in the social and industrial world," he wrote, ". . . does not differ in either its principle or its purpose from the competition among animals and plants. . . . We see in it the same soulless struggle, the same intense egoism, the same rhythm by which existing inequalities are increased, the same sacrifice of the weaker to the stronger, and the same frenzy of the latter to possess and monopolize the earth." Socialist clergyman George D. Herron put it even more strongly. "Competition is not a law but anarchy," he declared in 1893. "That competition is the life of industry is the most profane and foolish of social falsehoods. Cain was the author of the competitive theory," which is, Herron went on to say, "social imbecility. It is economic waste. It is the destruction of life. It is the deformity, brutality, and atheism of civilization."

Herron and Edward Bellamy, whose *Looking Backward* (1888) was an out and out plea for socialism in America, were opposed to competition, not only because it was cruel and wasteful but because, in their view, it *subverted* freedom. Obviously, two different conceptions of freedom are involved here; for Sumner held that competition fostered freedom, almost *was* freedom (and that equality was opposed to liberty), while Bellamy maintained that true freedom would only be achieved when all men had it equally, which would entail, as he made clear, the end of competition, economic and social. In fact, however, although they disagreed about what freedom is, they agreed

that it was desirable — perhaps all Americans always have — and they furthermore agreed that freedom of opportunity was somehow connected with it.

In modern times the question of the relationship between free enterprise and freedom in general has centered on the question of the relationship between liberty and security. The Preamble to the Constitution declared, and most Americans now seem to agree, that the promotion of the general welfare is one of the primary aims of our society and government. But what does “the general welfare” mean? Does it mean the great prosperity and success of the few, or the relatively smaller success of the many — with perhaps an even greater general prosperity? Does it mean the rather narrow liberty of Sumner and his fellow Social Darwinists, or does it mean some sort of security for all with less liberty for some — a kind of guarantee that none will be allowed to be completely defeated in the struggle for life?

Galbraith suggested an answer to the question. If the industrial system were to become only a part, and relatively a diminishing part, of life, there would be less occasion for concern about its threat to freedom. “We may, over time,” he said, “come to see the industrial system in fitting light as an essentially technical arrangement for providing goods and services in adequate volume. . . . The industrial system will fall

into its place as a detached and autonomous arm of the state, but responsive to the larger purposes of the society.”

But how to bring that about? Is even central government powerful enough to make it happen? Galbraith did not really think so, but he was not entirely hopeless. The reason lay in the peculiar character of the industrial system itself, which, “in contrast with its economic antecedents, is intellectually demanding. It brings into existence, to serve its intellectual and scientific needs, the community that, hopefully, will reject its monopoly of social purpose.”

The industrial system, in other words, is based, as no economic system before it ever was, on education. A constantly more complex technology needs better and better educated men to keep it running. And education, if it is good enough — if it is as good as it will have to be in the technological world of tomorrow — bears strange fruit. That education may produce only super engineers, in which case the industrial system will probably consume us all. But it is almost equally probable that it will produce a new kind of humanist, who will know how — we don’t know how yet — to make technology the servant of mankind, rather than its master. [For further discussion of some of the points touched on in this last section, see Chs. 5: GENERAL WELFARE, 18: STANDARD OF LIVING, 21: EDUCATION, and 24: PROGRESS.]