Economic Freedom

A Few Definitions

ALL three freedoms on which I am attempting to lecture have their positive and negative aspects; they mean freedom *from* something as well as freedom to *do* something. Political freedom means freedom *from* political control, as well as liberty to speak, think and vote as one pleases; but the negative feature of it has been stressed by the bills of rights. Academic freedom means freedom of scholars and teachers *from* certain types of control by political and academic superiors, but the positive aspect is by far the more important.

Economic freedom lies logically between these two. President Franklin D. Roosevelt, in his famous message to Congress of January 1941, gave one of the Four Freedoms – freedom from want – to economics, and at least part of another – freedom from fear. But it is clear that neither included economic freedom in the positive sense of free enterprise; they come, rather, under the heading of security.[1]

[1] The same is true of some of the articles in the United Nations Universal Declaration of Human Rights; for example:

"Art. 22. Everyone . . . has the right to social security.

"Art. 23. (1) Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment.

"(3) Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of

Many of the laws passed under the Roosevelt New Deal for the purpose of dissipating fear and mitigating want are regarded as the antithesis of freedom by a large part of the American and Canadian public, because they restrict the citizen's freedom to work, to invest, make profits and grow rich. I'm not going to chop logic on the varied dichotomies of freedom and security; but I can't resist introducing an example from *Through the Looking Glass:*

> "When *I* use a word," Humpty Dumpty said in rather a scornful tone, "it means just what I choose it to mean – neither more nor less."
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> "The question is," said Alice, "whether you *can* make words mean so many different things."
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> "The question is," said Humpty Dumpty, "which is to be master – that's all."

Now, the question here is, what *value* is to be master? Professional economists, *qua* economists, are supposed to concern themselves with economic means, not ends. They must regard the good economy as the one which gives the maximum real income to society as a whole; which satisfies consumers' wants as fully as possible. But even the economist *qua* citizen must realize that it is not always best for every citizen to have his economic wants completely satis-

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human dignity, and supplemented, if necessary, by other means of social protection.

"(4) Everyone has the right to form and to join trade unions for the protection of his interests.

"Art. 24. Everyone has the right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay.

"Art. 25. (1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family . . .

"(2) . . . All children, whether born in or out of wedlock, shall enjoy the same social protection."

fied; that the old carrot-before-the-donkey simile is still valid. The science of economics, which started as a branch of moral philosophy, can never be divorced from ethical and social considerations.

Nor can we forget that English America began as a dream – the *Utopia* of Sir, now Saint, Thomas More in 1516; a land where there was peace, liberty and plenty for all; where a six-hour day left time for recreation; where the mind and all the arts were cultivated. This search for the good life, the welfare of society, is implicit in all economic discussions on a high plane, and has never been wholly absent from the thoughts of North American statesmen.

The great debate of our day is that of economic freedom *versus* governmental and group controls. There is a growing mass of relevant data as to which system *works* best, from the narrow economic viewpoints of production, distribution, real wages, and the like; but the question is so mixed up with ideas of what constitutes the good life, the relative values of freedom and security, and so on, that it can never be really settled.

Assuming that we are all in favor of the economic system of the Western world, as compared with the various totalitarian states, I propose in a limited and tentative way to speak of the flux and reflux of collectivism and free enterprise in the Western world.

Economic freedom as commonly understood, and as I shall use the term today, means, in the international field, free trade and free currency exchange. In the domestic field, with which I am principally concerned, it means freedom to choose your profession or occupation, free competition at all levels, freedom to grow rich or go broke, freedom to make all the profit you can, to acquire a fortune, and to bequeath or inherit said fortune. Economic freedom means private enterprise and the free market as against statism or socialism, or the rigged market.

The Rise and Fall of Laissez Faire

It will be obvious that as I define economic freedom you could as well call it free enterprise; and that, as so defined, economic freedom waxed during the nineteenth century and waned during the twentieth – some will say, waned to the vanishing point, although I hope to show the contrary. Free enterprise attained a theoretical justification in laissez faire, and there are people today who regard laissez faire as a law of life, or of nature; almost a revelation. The imposition of checks and controls by governments in the last forty years, especially their transference of income from one class of the community to another by taxation and minimum wages, has seemed, and still seems, monstrous, almost blasphemous, to many of the victims.

Fifty years ago, British and American economists and statesmen apparently reached final conclusions on the value and necessity of private enterprise and the gold standard; yet in twenty years the consensus had been broken and the outlook changed by wars and depression. A new economic theory has arisen which demands that government, not private enterprise, lead the economic procession; that the secret of economic health is government spending; that thrift is no longer a virtue; and that good citizens need no longer expect to bequeath or to inherit large fortunes. David Lloyd George remarked in his speech of 29 April 1909, introducing his famous budget – a budget now regarded as the precursor of our present trend: "Spending is pleasant, paying is irksome; spending is noble, paying is sordid." He meant to be ironical; but the real irony is that this doctrine became orthodox.

While the hero of the old dispensation was the entrepreneur, the hero of the new is the employee; as you may gather by comparing mural paintings of the New Deal era in the United States with those that used to adorn the buildings of the Chicago World's Fair of 1893. The buxom ladies representing commerce and industry, uncomfortably riding giant cog wheels; the cornucopias overflowing with golden sovereigns and eagles; the groups of respectable, frock-coated directors at a conference, presumably thinking up beneficent schemes of private profit for public benefit, have now given way to brawny young men and women working on an assembly line, harvesting crops with a combine, or striding hand-in-hand with numerous offspring, faces uplifted toward the radiance of a golden day. The entrepreneur, if depicted at all, is either a wizened old rat clutching his securities, or an enormously fat gentleman accompanied by a lady bursting out of her clothes, gobbling a rich meal at an expensive restaurant.

Although the free enterprise system began losing its power less than fifty years ago, it is a johnny-come-lately in Western civilization. Free enterprise, except on a very low level, hardly existed in Europe when the French and

English colonies in North America were founded. But the very foundation of those colonies, with the limitless scope to human endeavor that they opened up, gave a tremendous fillip to free enterprise. Three centuries ago the New World, and a large part of the commerce of the Old World, was parceled out to trade gilds or joint-stock corporations with exclusive rights. Mercantilism, as the economic system then promoted by governments is called, restricted trade, commerce and manufacturing on every side, particularly in the colonies.

One of the favorite myths of American history, illustrated by full-page advertisements by big business around Thanksgiving Day, is that of the Pilgrim Fathers abolishing communism and introducing the American Way of Life; but nothing of the sort happened. The New England colonies of the seventeenth century, though virtually independent of Old England, set up their own little mercantile systems, fixed prices and wages (maximum prices and maximum wages), enforced the quality of their leading products, and forbade export in times of scarcity. Even freedom of movement was restricted, in the supposed interest of making people live in tight little communities where the constable and the clergy could keep everyone in hand. The frequent orders of the King of France that Canadian *coureurs de bois* should stay out of the woods and settle down as *habitants* are well known. Less known is Plymouth Colony's similar attempt, in a more modest and less monarchical manner. In 1656 a rugged individualist named Ramsden, described as having "lived long in the woods in an uncivil way, with his wife alone," was ordered by the General

Court of Plymouth to "repair to some neighborhood by 1 October"; and that if he did not, his house would be pulled down.[2]

The situation in French Canada was even worse, from the laissez faire point of view, because Versailles tried to impose a French peasant way of life on a rough American community, with little or no consideration for Canadian wishes, or of conditions along the St. Lawrence. To quote the classic description by Francis Parkman:

> The spirit of restriction and monopoly had ruled from the beginning. The old governor Lauson . . . held that Montreal had no right to trade directly with France, but must draw all her supplies from Quebec; and this preposterous claim was revived in the time of Mézy. . . . In 1674 the charter of the West India Company was revoked, and trade was declared open to all subjects of the King; yet commerce was still condemned to wear the ball and chain. New restrictions were imposed, meant for good, but resulting in evil. Merchants not resident in the colony were forbidden all trade, direct or indirect, with the Indians. They were also forbidden to sell any goods at retail except in August, September, and October; to trade anywhere in Canada above Quebec, and to sell clothing or domestic articles ready made. . . . Foreign trade of any kind was stiffly prohibited. In 1719, after a new company had engrossed the beaver-trade, its agents were empowered to enter all houses in Canada, whether ecclesiastical or secular, and search them for foreign goods, which when found were publicly burned. In the next year the royal council ordered that vessels engaged

[2] *Plymouth Colony Records* III p. 102. For this general subject see E. A. J. Johnson *American Economic Thought in the Seventeenth Century* (1932).

> in foreign trade should be captured by force of arms, like pirates, and confiscated along with their cargoes; while anybody having an article of foreign manufacture in his possession was subjected to a heavy fine.
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> Attempts were made to fix the exact amount of profit which merchants from France should be allowed to make in the colony . . . The merchants who sold and the purchaser who bought above this tariff were alike condemned to heavy penalties; and so, too, was the merchant who chose to keep his goods rather than sell them at the price ordained.[3]

Parkman argued that this absentee mercantilism was a leading cause of the weakness of Canada, and of her failure to survive as a French colony, in contrast to the English colonies, which had largely thrown off their mercantilist trammels by 1715 and adopted a dynamic free economy.

As Lord Keynes pointed out in his famous Sidney Ball Lecture of 1924,[4] the practice and doctrine of free enterprise received a great impetus in the early nineteenth century from several factors. Men could point to the fact that the industrial revolution, and indeed all material progress from 1750 to 1850, came from individual initiative; *ergo*, individual initiative should be allowed to carry on, especially in the exploitation of the American and African continents. On the negative side, the British civil service, prior to the reforms of the 1830s, was so corrupt and incompetent that practical men were prejudiced in favor of letting the businessmen run business. Finally, coeval with the industrial

[3] Francis Parkman *The Old Regime in Canada* (1874) Chap. XX; quoted in Morison ed. *The Parkman Reader* (1955) pp. 224-225.

[4] J. M. Keynes *The End of Laissez-Faire* (1926).

revolution, there arose a series of distinguished economists and publicists – Adam Smith, David Ricardo, Nassau Senior, John Stuart Mill, Herbert Spencer, Alfred Marshall and William Graham Sumner – who provided a quasi-philosophical justification for laissez faire, so that in course of time it seemed to have almost divine sanction. It became a leading dogma that private enterprise and free competition worked for the public good. An after-dinner speaker in London in 1876 well expressed the general feeling when he said there was nothing left for economists to do except to develop and apply laissez faire doctrine; the great work had been done. Again quoting Keynes, "To the philosophical doctrine that government has no right to interfere, and the divine miracle that it has no need to interfere, there is added a scientific proof that its interference is inexpedient. . . . The political philosopher could retire in favour of the business man – for the latter could attain the philosopher's *summum bonum* by just pursuing his private profit." Adam Smith and John Stuart Mill acquired such kudos that economists like D. H. Macgregor search their works for texts, to help prove a very different system; Keynes deigns to show that Adam Smith was brighter than his disciples, who out-Smithed Smith. Adam Smith, for instance, stated that government should be responsible for "the protection of every member of the society from the injustice and oppression of every other member of it." [3] And Nassau Senior, whose name is associated with the unpopular Poor Law of 1834, wrote that "the only rational foundation of government is expediency, the general benefit of the community. It is the

[3] Adam Smith *Wealth of Nations* Book IV Chap. 9.

duty of government to do whatever is conducive to the welfare of the governed." *

Earl Attlee and President Roosevelt could have said no more!

In truth, laissez faire at its apogee had a positive reforming side which disappeared when it declined to a mere businessmen's anger with government control or defense against the demands of labor. The laissez faire publicists, for instance, wanted a prohibition of monopolies, a firm control of money so that there would never be inflation or deflation, a stern refusal of favors to pressure groups, and international free trade. These, and other controls necessary to make the system work for the public benefit as well as private profit, were never well thought out or more than partially applied. Laissez faire was also coeval with a belief in the perfectibility of human nature. It assumed a Christian society of people who would not push an advantage to the point of greed, who would endure starvation wages and dependence on private charity rather than submit to trade-union regulations, and who would "accept, obey and support all the rules required to make the free economy a perfect servant of the common welfare."

Laissez faire failed because the system required too much "pure, lonely self-reliance in a world full of hazards," † because there was too much "original sin" in mankind and not enough virtue; and also because the working man came to feel victimized by it. During the capitalist avalanche that

* Senior quoted by D. H. Macgregor *Economic Thought and Policy* (1949) p. 85.

† O. H. Taylor *Economic Liberalism* (1955) pp. 237–238, 243.

overwhelmed all English-speaking countries from 1865 to 1893, enormous fortunes were built up, and also spent, with considerable effect on national development. But in the same period, when laissez faire was riding high, the real wages of unskilled labor and factory labor in the United States, i.e., the purchasing power of the weekly wage in terms of food, clothing, fuel, rent, furniture and tobacco, actually declined 6 and 5 per cent respectively.* The worker and the small-business man were the first to see the holes in laissez faire and to demand that government do something to fill them.

A public policy of laissez faire was never carried to the extreme degree in Great Britain that it was in Canada and the United States. The abuses of the free enterprise system were earlier recognized in the Old Country, and earlier corrected. The first effective factory act, which set up a board of inspectors to see that it was enforced, was Lord Althorp's in 1833; and the first ten-hour labor law was passed by the House of Commons in 1847. But the industrial Commonwealth of Massachusetts did not pass a ten-hour act until 1874. Although the French national workshops established in 1848 were pointed at with scorn as an example of the futility of "made work," Parliament, warned by what had happened in the Irish famine of 1846, relieved the cotton famine of 1863 in Lancashire by public works, to the extent of £1,750,000; an enormous sum for those days. The Lloyd George budget of 1909 with its tax on the "unearned increment" in land values, and unemployment in-

* Paul H. Douglas *Real Wages in the United States, 1890–1926* (1930) pp. 582–583.

surance that seems moderate enough today, appeared radical and confiscatory in the longitude of Montreal and New York; and it was Lloyd George indeed who inaugurated the public policy of transferring wealth from one class to another by means of taxation.

The Resistance to Collectivism

The free enterprise system was naturally more at home in undeveloped countries like the United States and Canada. As early as 1778 a young poet of Portsmouth, New Hampshire, composing a new epilogue to Addison's *Cato* in honor of General Washington, wrote:

> No pent-up Utica contracts your pow'rs,
> But the whole boundless Continent is ours!

The United States Federal Constitution was adopted in an era when every liberal and republican aimed to restrict rather than extend the powers of government. Our famous general welfare clause – "The Congress shall have power to lay and collect taxes . . . to . . . provide for the common defense and general welfare" – was undoubtedly intended as a limitation on the taxing power; but in course of time it has come to mean a planetary extension of the spending power.

When the states of the American union, responding to pressure from workers and small-business men, began to pass welfare legislation, they were challenged in the Federal courts. Their opponents invoked an amendment to the Federal Constitution which was adopted in 1868 to protect

Negroes from discrimination in the states: "Nor shall any State deprive any person of life, liberty, or property, without due process of law." This clause was so construed as to void welfare legislation by the states.

For instance, in 1882 the New York Legislature passed a law prohibiting the manufacture of cigars in tenement houses. It was sponsored by a young member of the legislature named Theodore Roosevelt, who had seen for himself the one-room flats where whole families and their lodgers ate, slept, spat, and rolled cigars. The Supreme Court of New York held this law unconstitutional because it robbed the tenement-house owners of profitable rents without due process, or any compensating public advantage. In an unusually fatuous obiter dictum the Court observed, "It cannot be perceived how the cigar maker is to be improved in his health or his morals by forcing him from his home and its hallowed associations and beneficent influences to ply his trade elsewhere." This decision, said Theodore Roosevelt, retarded the cause of housing reform for a generation. "The right of a person to sell his labor upon such terms as he deems proper," became a postulate of American decisions on social legislation, even before Herbert Spencer announced it in his *Justice* (1891). Nothing acted as such a red rag to the labor bull as this theory that labor was a commodity, to be bought and sold in a free market, like fish or potatoes.

One of the many abuses of free enterprise in those days was the payment of miners' wages in orders on the company's store. A Pennsylvania statute forbidding this practice was judicially nullified in a decision which declared that the prohibition was "insulting and degrading" to the miner, and "subversive of his rights as a citizen." A ten-hour law for women was declared unconstitutional in Illinois; and a New York law which prohibited night work for women in factories was thrown out as an unwarrantable interference with a lady's right to "work any time of day that suits her." As late as 1905, in the famous Lochner case, the Supreme Court of the United States declared a law unconstitutional which limited the hours of work in bakeries, on the ground that "bakers were sufficiently intelligent to make their own labor contracts."

Industrial accidents also remained at the mercy of the "fellow servant" doctrine of the common law. The doctrine that an employer was not responsible for injury caused to one employee by a fellow employee, fair enough on a medieval farm or in an eighteenth-century shop, was applied to mines and railroads. It was not until the first decade of the twentieth century that the states began to pass compulsory accident compensation laws.

We have now gone to the other extreme. On board an American freighter in 1949 a sailor tried to steal a bottle of brandy that another seaman had secreted under his bunk. When the owner of the bottle protested, he was struck on the head with the bottle and knocked out. The victim, supported by his union, sued the shipowners for damages, alleging that the ship's officers were negligent in not protecting him from an unwarranted assault. I'm glad to say that he lost the case.*

* *Leykes Bros. S.S. Co. v. Boudoin*, 1954 American Maritime Cases 666.

The Great Depression and the New Deal

Thus, the nineteenth century evolved a society in which economic freedom was abused to the point where it became economic license; the result for the twentieth century was an intolerable economic anarchy and chaos. The stock market crash of 1929, followed by the depression that lasted until World War II, proved to be the great divide of the twentieth century for the United States and Canada. Laissez faire enjoyed a greater prestige on this side of the Atlantic than in Great Britain, employed a larger percentage of the population and was subject to less regulation. Consequently, under the impact of the depression it took a greater beating. Free enterprise fell farther in our two countries than anywhere else in the Western world, and so hit the bottom with the loudest crash.

Opinions differ as to just what caused the crash of 1929 and the Great Depression that followed [10]; but all boil down to this – that business and finance, unrestrained by legal or moral controls, were responsible. The crash cannot be blamed on labor, or government, or sun spots. Thus the crash discredited laissez faire, a resort to which, now, is even less likely than a return to neolithic civilization following an atomic war.

No one who lived through the Great Depression will ever forget it. The experience was even more "traumatic" than that of the Second World War. We had at least been

[10] There are some breezy generalizations on the subject in John K. Galbraith *The Great Crash, 1929* (1955).

prepared for World War II by World War I, but nothing in the experience of the Western world was comparable with the bankruptcies, the bank failures, the evictions, the unemployment, the suffering, the despair that followed the crash of 1929 and the deeper depression of 1931. Fortunately the United States in 1932, when the depression was at its worst, elected as President Franklin D. Roosevelt, a man of daring, imagination and unquenchable optimism. Canada had a Premier of very different temper; but Mr. Bennett's ideas evolved under the pressure of events, and before he was defeated by Mr. King he had moved so far to the left that Mr. Herbert Hoover, who saw eye to eye with him at the start, had fallen far to the rear.

In both countries innumerable attempts were made to end the depression and restore full employment, and these efforts added up to a vast increase of governmental power. Not only in relief, but in trade, industry, the merchant marine, indeed in almost every phase of human activity except religion, the state took over where private enterprise had failed. For the first time in United States history, we find great industries themselves begging for government regulation, codes of conduct, administrative boards and the like, to restrain and regulate competition. And by the Wagner Act, organized labor in the United States was accorded a privileged position which has only slightly been modified by the Taft-Hartley Act of 1947.

In the course of this revolution the meaning of the term *liberal* underwent an almost complete reversal. Up to, let us say, the Lloyd George era in Britain or the Hoover era in the United States, liberalism in economics meant the freedom of private enterprise to be let alone; freedom for supply and demand to operate, for the "judgment of the market" to be applied. Nowadays, as President Roosevelt wrote in 1941, "the liberal party" (by which of course he meant his own Democratic Party) "believes that, as new conditions and problems arise beyond the power of men and women to meet as individuals, it becomes the duty of the Government itself to find new remedies with which to meet them. The liberal party insists that the Government has the definite duty to use all its power and resources to meet new social problems with new social controls – to insure the average person the right to his own economic and political life, liberty and the pursuit of happiness." [11]

This novel interpretation of liberalism was received with scorn and loathing by many economists and by most leaders of industry, finance and the Republican Party. To them liberalism meant free enterprise – the right of industry and finance to do what they wanted to: to sell at whatever price the market would stand, to hire and fire labor at will. Liberalism meant the right of banks to lend or lose their depositors' money as they chose, subject to a central bank's control of the money supply; the right of investment houses to judge what securities they would sell to the public. The typical American financier or industrialist of 1930 looked on freedom in terms of *power*, as indeed his fellows had done in the past. The crash and the depression proved, if they proved anything, that the private financier and industrialist had misused or misapplied their power; that the one governmental brake, the Federal Reserve Board, had failed

[11] Introduction to F.D.R.'s *Public Papers and Addresses* (1941).

to act in time to restrain the unhealthy boom and thereby avert the disastrous bust. Free economy lost the confidence of the people; and that confidence has only partly been regained during the prosperous postwar years.

To me there is no question but that the measures known as the New Deal – haphazard, wasteful and uncoördinated though they were – saved the capitalist system in the United States, and democratic government as well. Conditions had become so desperate in 1933, when Franklin D. Roosevelt was inaugurated as President, that the country was ripe for any sort of economic quackery or political demagoguery. The French financiers and industrialists were soon saying "*Plutôt Hitler que Blum*" – and if we had not had Roosevelt we would certainly have had a Huey Long or another of that ilk in the Presidency. Canada, of course, did have a number of Huey Longs, fortunately on the provincial, not the Federal level. But the financial and industrial community of the United States, far from being grateful to F.D.R., bit the healing hand like a wounded dog trying to bite the veterinarian. Outside the United States, Roosevelt is recognized as one of the really great statesmen of our era; but within the United States, where his memory is cherished by a majority of the people, his name is still execrated by many leaders of the financial and industrial world.

Why this should be so has always interested me; and I never had a good answer until I tried the question on the philosopher Alfred North Whitehead. "Mr. Roosevelt is no more bitterly hated by your men of wealth today," he said to me, "than Mr. Gladstone was by the English county families when I was a boy — and for the same reason; he is regarded as a traitor to his class." That, I believe, is the answer. By and large the financial oligarchy of the United States, though it took a beating from the Great Depression, hoped to profit by it ultimately, through destroying the power of organized labor, ending collective bargaining and letting wages and prices follow a descending spiral to rock-bottom. That would have happened in the United States under the unregulated laissez faire system which obtained in 1929. The New Deal prevented it by putting a "floor" under wages. As it turned out, labor ultimately profited from the Great Depression while free capital and private finance lost both power and prestige.[12]

At the same time, the Great Depression started that *trahison des clercs*, the counterblast to which has endangered civil liberties. A number of intellectuals and labor leaders in the United States concluded that the entire capitalist system was finished and went over to an extreme collective system, some to the fascist, but most to the communist variety. The number who did so was very small, but men like Alger Hiss, Harry Dexter White, Burgess and McLean, who finally were detected, have brought the entire intelligentsia under suspicion. The labor leaders ensnared by communism were many times more numerous, but none

[12] J. K. Galbraith *American Capitalism* (1952) p. 84 explained the parallel hatred of businessmen for Keynes on the ground that he made government "the indispensable partner of business," and damaged its prestige even when its profits were not diminished. "Where . . . people had previously looked upon business decisions as the ones that had shaped their destiny, now they would have regard for government decisions as well. Those of an Assistant Secretary of the Treasury on interest rates were now of more importance than those of any banker."

were personally so prominent; and nobody in the United States except Westbrook Pegler dares to attack labor leaders in the same terms that any backwoods legislator or village newspaper editor is free to use against "intellectuals."

These two social results of the Great Depression at opposite ends of the political spectrum – vicious hatred of the new liberalism on the one hand, and the flight to communism on the other – have, as I suggested in my first lecture, interlocked and interacted to create the phenomenon known as McCarthyism.

New Deal legislation was pitched for security, not liberty; there's no doubt about that. The Social Security Act of 1935 was the first nationwide system of unemployment insurance and retirement pensions in the United States. The Agricultural Adjustment Act, subsidizing farm prices and paying farmers *not* to grow certain crops, was voided by the Supreme Court in 1936, repassed, and validated by a Supreme Court with new members. The Federal Farm Loan Act of 1933 authorized loans up to two billion dollars to prevent foreclosure of farm mortgages. The Reconstruction Finance Corporation was authorized to lend money directly to farmers. Labor was protected by the Wagner Act, the National Labor Relations Board, and the Fair Labor Standards Act of 1938, which put a "ceiling over hours and a floor under wages," and which was sustained by the Supreme Court. That law was the greatest offense of the New Deal from the laissez faire point of view. It prevented wages from being knocked down to "A dollar a day is a white man's pay," as the old ballad has it.

On the financial and industrial side, F.D.R., following the lead of Great Britain, took the United States off the gold standard on 19 April 1933. Congress canceled both public and private pre-existing contracts to pay certain debts in gold, and this virtual confiscation of savings was sustained by the courts; ten years earlier it would have been considered immoral and revolutionary. The Glass-Steagall Banking Act of 1933 separated commercial from investment banking, and guaranteed the public's bank deposits. And the stock exchange, whose unbridled speculation and mendacious unloading of worthless securities on the public had contributed more than any other factor to the crash, was regulated by the Securities Act of 1933, which set up the now famous S.E.C., the Securities and Exchange Commission, with power to pass on all new issues. This S.E.C. has probably done more than any other New Deal device to prevent the depression after World War II upon which the communist world has been counting so confidently.

Perhaps the greatest constructive and permanent achievement of the New Deal was the Tennessee Valley Authority. Keynes had said, "The important thing for a Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all." [11] Well, here it was – first (I believe) of the new Authorities that have been a model for the Schumann Plan; an Authority whose objective was to harness a great river that runs through or between six states of the Union, to supply cheap electric power and fertilizers, withdraw marginal lands

[11] J. M. Keynes *The End of Laissez-Faire* (1926) p. 46.

from cultivation, and promote the health and welfare of an entire region.

Every one of these New Deal acts in some way narrowed the scope of free enterprise and economic freedom. The employer lost his freedom to hire and fire; the broker lost his freedom to shear the lambs; the banker lost his freedom to make unsound and speculative loans; the great utilities, now in competition with government enterprise, lost their freedom to charge "all that the traffic would bear" for electric light and power. And at the same time the scope of government was extended, the number of Federal employees doubled, and the cost of running the government, with all these handouts to farmers, to the unemployed, to pay mortgages and the like, went up astronomically.

The New Free Enterprise

Many and dire were the prophecies that all this added up to the end of free enterprise and the "American way of life"; that "creeping socialism" would smother the Republic, and the freeborn Englishman would become little better than a serf. Hayek, Jewkes and Schumpeter, like the three witches in *Macbeth*, prophesied that each deviation from free enterprise would propel the free nations irresistibly from New Dealism to socialism, and from socialism to some form of police state.[14] Ten years and more have now

[14] See Bibliography for their works. Prophecy is certainly a dangerous pastime for economists and historians. Stanley Casson, a bright Oxford don who had studied the ancient civilizations, predicted in his *Progress and Catastrophe* (1937) that our civilization had already col-

elapsed since these three weird sisters uttered their gloomy prophecy on the "barren heath" of the "dismal science"; yet I think we may say that our economic Macbeth is still Thane of Glamis. I would not deny that he hankers to be Thane of Cawdor or that his left-wing Lady still has eyes on the crown. But if you will bear with me, I shall relate some postwar developments which in my opinion justify the quip of Adolf Berle, Jr., that instead of getting "creeping socialism" out of the New Deal and the war, we got "galloping capitalism."

We now have a capitalism so different from that of the last century that it really needs a new name. Development no longer depends on the so-called "verdict of the market" as in laissez faire days. That is equally true of pricing, sales and investment. (1) The transportation services, the public utilities, the fuels, are now so far under public regulation in the United States and Canada – when not actually nationalized – that pricing is done by administrative decisions, not by what businessmen think the market will take. (2) Free venture capital has become so scarce, owing to the high and progressive income tax and the continual pressure to spend rather than save, that the big corporations are now financing changes and expansion by plowing in their own profits rather than by borrowing, or issuing new stock. The National City Bank has estimated that in eight years (1946–

lapsed, as would presently become patent; and Harold J. Laski, in *Reflections on the Revolution of Our Time* (1943), predicted that freedom – what he called freedom – could only be maintained after the war by complete state control of finance, investment, land, transport, fuel, power and import-export; the latter, he said, being the "plain lesson of Russian experience" (p. 347).

1953), 64 per cent of the hundred and fifty billion dollars spent in the United States to enlarge and modernize plant and equipment came out of the retained earnings and reserves of the industries themselves. Of the remainder, 18 per cent came from bank credit, 12 per cent from bonds or notes, and only 6 per cent from new issues of stock.[11]

Major corporations of today do not seek new capital; they form it themselves out of earnings. Even the release of stock by the Ford Motor Company to public sale in 1955 was not a subscription of old capital. It was merely the unloading of securities that the Ford family or Foundation had held in too great a quantity for their financial health.

In this amazing new development of capitalistic free enterprise, doctrine has lagged behind practice to a ludicrous extent. By and large our industrial leaders are still talking laissez faire. F. A. Hayek's *The Road to Serfdom*, the attack on collectivism which appeared at the end of World War II, was abridged and circulated free by several large American corporations in the hope that it would be a warning against the growth of government regulation and planning. Yet at the same time these very corporate executives were seeking nationwide central planning nuclei. The Interstate Oil Compact of 1935, with Congressional approval, provided for the adjustment of crude oil production to estimated demand, and is now enforced by the Connally "Hot Oil" Act, which forbids the shipment of petroleum from one state of the Union to another, unless a certificate proves that it has been produced in accordance with production

[11] A. A. Berle, Jr. *The Twentieth Century Capitalist Revolution* (1954) pp. 37–38.

controls. Not exactly free enterprise, was it? Yet the oil industry wanted it, and it has worked successfully for over twenty years. The American aircraft industry is still in private hands, but since the United States government buys about 95 per cent of its products, government dictation as to specifications, prices, wages and hours is complete and continuous. Electronics are in much the same situation.

In the really big industries of the United States, competition is never permitted to carry through to its logical end. Nobody wants that. If things get out of hand, and competition threatens to become ruinous (as when the Texas oil gushers were inundating the refiners with crude oil), government is asked to step in and referee a plan to control the entire industry. Or, if the industry is international in character, an international compact is formed.[16] That is the mid-twentieth-century pattern. Now that 135 corporate Goliaths own 45 per cent of the industrial assets of the United States, *and are able to finance their own growth*, corporate Davids are becoming scarce.[17] As a Haitian proverb puts it, a cockroach does not stop to argue with a chicken.

[16] See especially Part Four of A. W. Macmahon ed. *Federalism Mature and Emergent* (1955).

[17] A. A. Berle, Jr. *The Twentieth Century Capitalist Revolution* (1954) p. 51, quoting A. R. Burns *Decline of Competition* (1938). John K. Galbraith *American Capitalism* (1952) pp. 41-42, quoting the Federal Trade Commission report *Concentration of Production Facilities* (1947), puts it another way. The 113 largest manufacturing corporations owned 46 per cent of all property employed in manufacturing; but in the production of motor cars, tires, farm machinery, cigarettes, aluminum, liquor, meat products, copper, tin cans and office machinery, the three largest firms did at least 66 per cent of the business. This new system, halfway between monopoly and the competition of a very large number of substantial equals, has been given a horrid name, *ogliopoly*.

It is the big concentrates that set the prices; and when prices are fixed by agreement or collusion within an industry, what becomes of laissez faire? The fact is that nobody really wants free competition nowadays in big industry. The thrills of the old nineteenth-century cutthroat wars between railway and steamship companies, between Standard Oil and its competitors, between rival banks, are now regarded as childish, a sort of cops-and-robbers game; under present conditions a price war might be ruinous. From top executive to lowliest lumper, everyone nowadays wants a steady job, producing predictable goods at a predictable cost under predictable conditions, to be sold at a predictable price. That is what we now mean by security, and what we are getting; and there can be no blinking the fact that this is not security in the eighteenth-century meaning of the word: the guarantee of liberty. But I for one won't give up freedom as lost. I believe that we still retain a large measure of economic freedom, and that it is likely to increase rather than diminish unless we have another world war or world depression.

With price competition ruled out, competition continues in other forms, especially for new markets, by persuasive advertising and salesmanship, such as we see every day between the big tobacco companies that make popular brands of cigarettes. And there is competition between alternate products. In most parts of the United States, for instance, anthracite coal has just about priced itself out of the domestic fuel market, in favor of oil; and natural gas is running oil a good race. Nylon has absorbed a large part of the market formerly monopolized by cotton, just as cotton in the eighteenth century replaced linen and wool for many uses. Plastics and aluminum have lessened the peacetime demands for iron and steel. Even the most traditionally operated and wasteful of our North American industries, the fisheries, have at long last adopted new methods: the fried-frozen fish stick from Nova Scotia and New England is now competing for the dollars and calories of housewives from Sydney to Vancouver, and from Edmonton to Houston.

These new enterprises often start inside an industry, the initiative coming from salaried scientists and researchers. Almost every private enterprise of today, even a fairly small one, has a research laboratory and a statistician. In England I heard a story about the old-fashioned woolen factory in the West Riding of Yorkshire which was losing out under the management of two elderly brothers. The son of one, who had been to Cambridge, said that what they needed was a researcher. "What's that?" they asked. The young man explained as best he could, and was told to hire one, and did so. The brothers ushered the man of science into a large room which they had fitted up as a sort of high-school physics laboratory, and locked him in. At the lunch hour they unlocked the door and inquired, " 'Ee, laddie; hast discovered anything yet?"

In Britain, Canada and the United States, the big corporations are hiring the brainiest laddies out of M.I.T. and the engineering schools, even if they have no immediate work for them to do, because they hope they may "discover something"; and their salaries, written off taxable income, cost the corporation nothing. Conversely, a bright young man who has invented a new drug or plastic or gadget has little or no hope of finding the capital to develop it. But Du Pont or Imperial Chemicals can afford to spend a million dollars to develop something just on the chance that it may become profitable, because that, too, costs them nothing – the million dollars comes off taxable income.

Free enterprise, like Mark Twain, may remark that the rumor of its death is exaggerated. A good many grim prophecies have not come to pass. Lord Keynes in his famous lecture of 1924, *The End of Laissez-Faire*,[18] declared that the time had come when each government must decide on the optimum population for its country, and even "take steps to carry it into operation." Nothing of the sort has happened. Even voluntary birth control is forbidden wherever the Catholic Church is strong, and the entire Western world since 1945 has shown an extraordinary fecundity – though as yet no other family has matched the Dionnes.

When the Labor Party came into power in England after the war, its left wing declared that nationalization would not work without forcible allocation of labor; but all attempts to check and hamper the mobility of the British workingman broke on the rock of British conceptions of freedom.

Benito Mussolini, contemplating a photograph of F.D.R. in the early days of the New Deal, remarked, "He is trying to save his country with a smile; he will soon find, like me, that he can't do it without a scowl and without terror." But Roosevelt wore that smile to his dying day, and the people of the United States subjected themselves under his leader-

[18] J. M. Keynes *The End of Laissez-Faire* (1926).

ship to an unheard-of regimentation, in peace as in war, without the aid of hoodlums, jackboots, castor oil or gas chambers.

Despite the bankruptcies of the Great Depression and the trend toward consolidation, there were actually 27 per cent *more* manufacturing concerns in the United States in 1947 than there were at the time of the crash in 1929 – 3,800,000 individual free enterprises in all, exclusive of the farms; and if we included the farms, the number would add up to ten million.[19]

In the midst of the New Deal it was freely predicted by financiers and economists that the United States could not stand a national debt of more than a hundred billion dollars. The debt had risen to 278.7 billion by the end of 1945; and by October of 1955 it had slightly increased, to 279.9 billion.[20] But we seem to be happily borrowing along.

Prophets of doom were also worried about the growing number of people on the public payrolls of the Federal Government, which, added to those in the armed forces and on relief, meant a dead weight on the economy. This number of Federal employees, which never exceeded a million before the depression, rose to 2,892,000 in 1946; and the Eisenhower administration succeeded in reducing it only to 2,348,000 by the end of 1954.[21] That is a tremendous number of people to be "feeding at the public crib," and it does not include state or municipal employees, who would account for many thousands more; yet we seem to be able to

[19] S. H. Slichter *The American Economy* (1948) pp. 16–18.

[20] The figures were $278,682,000,000 and $279,866,000,000, according to information from the Statistical Editor of the Boston *Globe*.

[21] Figures from the same source.

support them. In fact, "wolf" has been cried so often by conservatives that people have come to believe that there isn't any wolf; that is now the danger. For this sort of thing cannot go on indefinitely; there must be a halt somewhere short of everyone being on the public payroll, as happened in Newfoundland before it went bankrupt.

The proportion of people still employed, and of goods still produced, by free enterprise is much greater than is generally supposed. In Great Britain in 1955, after the Labor Party's nationalization of railways, coal mines and other industries, only 21 per cent of the total gross production was represented by government production or government purchase of goods and services. The other 79 per cent was produced by free enterprise.[22] The proportion in the United States was very nearly the same. For Canada, the figures are 18 per cent government, 82 per cent free enterprise. In 1948 about 85 per cent of the industrial output of the United States was produced by private enterprise, and only 15 per cent by the government, including the output of the Tennessee Valley Authority.[23]

Thus, we still have plenty of free enterprise in the United States and Canada, but with a difference. Individuals are free to start new enterprises, individuals and companies are free to buy and sell, expand or retrench, and in other ways

[22] These figures were furnished by my colleague Professor Seymour E. Harris. They state the percentage of government purchases of goods and services, including the wages of persons engaged in producing the goods, to the total gross national product. Mere employment figures do not allow for purchases by the government in the open market, which are very important in the United States. Looked at that way, the proportion of public to private industry is now roughly the same in the United Kingdom and the United States, and slightly less in Canada.

[23] S. H. Slichter *The American Economy* (1948) p. 5.

to pursue their self-interest; but within a framework of rules established by government and by labor unions, and under the excessive taxation of corporate income – 38 per cent in the United States, except for very small units. Of these two forces that hamper free enterprise today, that of the unions is the stronger; and in the United States, with the recent merger of the C.I.O. and the A.F. of L., it may well become stronger still.

Owing largely to the efforts of the labor unions, and to full employment, we now have a strange imbalance in the United States between the rewards that different kinds of labor receive. Teachers in the public schools, who are not unionized, commonly receive less pay than the school janitors, who are. Locomotive engineers, who have indeed a great responsibility, but whose skill can be learned very quickly, receive a higher annual wage than a captain in the Navy, who has been learning his profession for twenty-five years and whose train, as it were, is a 200-million-dollar aircraft carrier with a complement of 2500 men. Young physicians, after four years in college, three in medical school, and a year or more as internes, commonly earn less in a year than a plumber, who can learn his trade in two years and be paid while learning. It was recently ascertained in Washington that the Dean of the Cathedral Chapter receives a smaller annual salary than the wage of a mason who is working on completing the edifice. And so it goes, on every side. The unions have battled their way so successfully that their members have become the privileged class in our Western society, comparable to the *rentier* of the nineteenth century.

There is small likelihood of getting this remedied under a democracy, unless labor itself takes the initiative. Labor may realize that it is possible to go too far in raising wages without commensurate increase in production. Many spokesmen for labor are still working on two obsolete hypotheses: that there is a fixed amount of work which has to be done, no matter at what cost; and that wage increases can be passed on to the public in prices. The fallacy of the one is shown by the phenomenal growth of "do it yourself" kits and of home house-building. The falsity of the other is shown by the book business. In our modern society we may have to buy gas stoves and electric toasters at any price, but we can go without books; and although the wages of linotypers have increased over 100 per cent since 1940, publishers do not dare to raise the price of books more than 30 per cent, or people will not buy them. But new methods of offset and the like for producing books are being rapidly developed, and it seems probable that some linotypers will price themselves out of their jobs.

Galloping Capitalism

On the other side of the economic picture we have the super-corporation, or *concentrate* as it is often called. In the manufacture of motor cars, radios and other electrical appliances, in petroleum refining, in meat packing and in iron and steel production, a few mammoth corporations share from one half to three fifths of the business in the United States. The remaining half to two fifths of the business is shared by a large number of competitors, so that there is no monopoly; but the pricing, production and sales policies of the concentrates set the pace for the little fellows.

Concentrates, all privately owned, have grown by leaps and bounds in recent years; and it is they who are now invading the field of government, rather than government taking them over. Standard and Shell Oil, United States Steel, Reynolds Aluminum, General Motors and a score of other super-corporations have their own foreign offices, their own diplomats, who negotiate with similar corporations in other nations, or their governments, and in some cases take over governmental functions. United Fruit has been doing this for over fifty years in the Caribbean. Corporation diplomacy is almost always secret and, in general, more successful in getting results than official diplomacy by governments. Take the Anglo-Iranian Oil Company controversy. Governments had a hand in settling it, but the major work of negotiation and compromise was done by the corporations; and when the settlement was made and the Persian refineries were reopened, all the major oil companies, rivals to Anglo-Iranian, agreed to relinquish to Anglo-Iranian all its former markets which they had in the meantime absorbed. Imagine that being done between rival railroad companies in the old laissez faire days!

These international corporations can and do energize the economy on a huge scale. They open mines, build towns, construct roads, and incidentally improve the living standards of hitherto backward peoples by giving stimuli and scope for their ambitions. United States Steel, for instance, in order to tap a new iron ore area in Venezuela, in a few months built hundreds of miles of roads, a small city and several towns, with hundreds of homes for the workers. On the north shore of Jamaica, Reynolds Aluminum, the Kaiser Company, and Aluminia of Jamaica Ltd., a Canadian corporation, are strip-mining bauxite, which they ship to plants in Baton Rouge, Louisiana, and Kitimat, British Columbia. In return they have undertaken to develop the economy of Jamaica by introducing new strains of cattle, poultry, and citrus fruits; they have built a modern dressing plant and a freezer, reforested hundreds of acres with mahogany, and built a big hospital. That sort of thing is going on all over the world. Capital investment in a country of backward economy is not a mere stripping of natural resources, like the old copper mining of Chile, which left the Chileans nothing but the hole; it is a means of building up a local diversified economy and improving the native standard of living; as different from the Marxian theory of capitalist exploitation as white is from black.

Almost unknown to the public, these giant Canadian and United States concentrates, either alone or in a diplomatic partnership with their European counterparts, are effecting an economic revolution which began during the Great Depression – a revolution comparable in its results with the communist revolution in Russia. These are no longer mere corporations, they are institutions; and in spite of the government regulation to which they are subjected – usually by their own desire – they are units in a free world. Although they have gone a long way from the scheme of things described by Adam Smith, they still produce for profit, bargain with labor, compete with other products in the market, reward skill and initiative, and, except for the fixing of prices, satisfy every test of a free enterprise. The concentrates have, in fact, set up one supranational Authority, under the Schumann Plan; and if the Western world goes ahead on that line, more will follow.

The success of these concentrates refutes the charge of creeping socialism; but the power that they wield is terrific; their ability to affect the lives of you and me is frightening; and their lack of a guiding principle or philosophy is appalling. As yet there is no doctrine or corpus of principles to determine how these super-corporations shall conduct their business. They are acting empirically, like the English cotton factories before there were any Factory Acts. We need a broad analysis and description of the present economic world just as much as the world of 1850 needed John Stuart Mill. Capitalism has galloped far ahead of the economists; and the public, charmed by the slick-paper advertising, the TV programs, and soap operas financed by the concentrates, has not begun to realize what is going on.

President Roosevelt in 1938 appointed a Temporary National Economic Committee to investigate the concentration of economic power. The committee sat for three years, filled 17,000 pages with its reports and ended with the lame conclusion "that the information which this committee has assembled . . . will enable the people of America to know what must be done if human freedom is to be preserved." [24] That was sixteen years ago; yet, to date, nobody has come forth with a single constructive suggestion as to what must be done, or to answer the question, Who will regulate

[24] J. K. Galbraith *American Capitalism* (1952) p. 60.

these giant concerns which control such immense segments of our economy? Their stockholders can't do it. Their directors and managers are practically independent of control. From time to time they appeal to government for regulation, as the airlines did for the Civil Aeronautics Act. But with a new technical revolution, that of nuclear fission, impending, national governments will no longer be competent. Who is there to do it, except the United Nations?

Professor Galbraith has a less heroic remedy. He asserts that the concentrates are in fact being automatically regulated by the "countervailing power" of the labor unions, and of the buyers. Every seller has to have a buyer; and some of the principal buyers of consumer goods in our present economy are department stores like Macy's and chain stores like Sears, Roebuck and F. W. Woolworth, which are concentrates themselves. In the British Isles and Scandinavia the same countervailing power is applied by the great consumers' coöperatives. But what of the motor-car industry, which sells directly to the public through its own agents? Or the building industry, before whom the individual home builder is helpless?

Untouched Areas of Free Enterprise; "Fair Trade"

As we have seen, 79 per cent of the business in Great Britain and the United States, and 82 per cent in Canada, is still private enterprise. But very many of these enterprises, such as the railroads and airlines in the United States, are also under government regulation or control, and the tendency of the times is toward more regulation rather than less. The syndicated cartoon of Fagaly and Shorten, "There Oughta Be a Law," is much to the point. Almost everyone can think of a new subject or business that needs regulation, rather than one already regulated that should be decontrolled.

For instance, my wife, a professional singer, declares that teachers of voice in the United States should be examined and licensed as (I believe) they are in Italy. She points out that the old adage, "Them that can, do; them that can't, teach," is particularly true of teachers of voice. Any busted baritone or cracked contralto can hang out a sign as "Teacher of Voice," attract pupils and completely ruin the voices of young men and women. My wife observes that even the hairdresser whom she patronizes has to be examined for competence by a state board, and must pay an annual license fee before he can practice, to protect ladies from having their hair burned off or otherwise ruined; but that the old adage *Caveat emptor* prevails in the teaching of singing. I can only reply that if competent teachers of singing would organize a union and convince the public that society has as great an interest in protecting the voice as in preserving the hair, they would probably get the kind of law they need. And one more little area of freedom will then be gone.

When you once place something under legal regulation, it is very difficult to recover it for free competition, even if the regulations prove to be harmful on the whole, because there is always someone who has an interest in retaining the controls. For an example, take the recent history of the so-called fair-trade movement. This price-rigging scheme, as complete a derogation of the free enterprise system as you can find outside the totalitarian states, was adopted under the sacred slogan of preserving free enterprise and the American way of life. Although practically every economist in the country opposed them, fair-trade laws were passed by forty-five of the forty-eight states of the Union.

These laws allow a manufacturer to dictate the price at which his product will be sold at retail. Fair-trade laws place it in the power of the manufacturer, or any aggrieved party, to bring suit against a cut-price retailer and punish him by fines or refusal of supplies, or both. The impetus for this fair-trade movement, the real steam behind it, came from small independent shopkeepers, especially drugstores, groceries and hardware stores, who in the Great Depression were often forced out of business by department stores, chain stores, supermarkets and mail-order houses. It was argued that society has an interest in keeping these small retailers going; that the corner druggist, for instance, can't live on filling prescriptions for the neighborhood; he must be able to sell nationally advertised drugs and toilet articles. And if the customer can get his Bayer aspirin and Colgate toothpaste 20 per cent cheaper at a cut-rate chain store, he will. The small-town hardware dealer can't make a living selling garden tools and seeds; he must be able to market refrigerators, television sets and washing machines, which he can't do if the city department store is able to undercut him \$25 to \$100 on these big-ticket items. And manufacturers in the United States seem to have the idea that any undercutting in the price of a nationally advertised brand lessens public confidence in that brand – makes people suspect there is something wrong with it. The favorite phrase in this connection is, "We must protect 'quality' items from debasement in the consumer's mind." [25] So the manufacturers joined in the hue and cry against price-cutting, which a decision of the Supreme Court in 1911 had upheld as a natural right of dealers: to sell what they own for the price they choose to ask.

While the strength of the fair-trade movement came from the manufacturers of "name brands," and small retailers who wanted protection from chain stores and the like, the great talking point was the iniquity of the "loss leader." In case you are not familiar with the jargon of fair trade, I shall explain that a loss leader is an article, usually a nationally advertised one, which a department or chain store sells for a short time at a severely cut price, or even at a loss, in order to attract customers into the store and lead them to buy other things too. The favorite "loss leader" item in the United States seems to be a dishwasher, and the favorite one in Canada a floor polisher. (Psychologists are welcome to make deductions on national character from this difference!) The theory of the fair-traders is that if a housewife who has long and vainly coveted a General Electric floor polisher listed retail at $54.50 suddenly sees it advertised by a department store at $33.85, she will rush in and buy one; *but* at the same time she will look around the store and squander the $20.65 that she has saved, on pots and pans, curtains, nylon stockings and what not. Whether Canadian

[25] *The 'Fair Trade' Question* (see Bibliography, page 155) p. 70.

and American housewives do or do not behave in this irrational manner is beside the point; the chain and department store executives believe that they do, and so, unless restrained by law, will occasionally sell an advertised brand at a loss in order to attract new customers. And the neighborhood hardware dealer, who has spent time and money demonstrating a $54.50 floor polisher to Mrs. McTavish, feels frustrated and cheated if she rushes into a department store and snaps one up for $33.85.

Fair-trade laws in the United States promptly ran up against the snag of the antitrust laws, which make horizontal price-fixing illegal. Manufacturers cannot legally agree to charge identical prices for identical goods, nor can retailers agree among themselves never to cut prices; that would be horizontal price-fixing. But the fair-trade laws allow the same thing in effect by permitting manufacturer A to fix a retail price which retailers X, Y and Z have to observe. It became necessary, therefore, for Congress to pass enabling legislation which repealed the Sherman and other antitrust laws as regards retail price-rigging. The first of these national laws was the Miller-Tydings Act of 1937, which allowed vertical price-fixing on the products of manufacturers who were in competition with other manufacturers of similar goods; and that meant almost everyone. Naturally there was a good deal of litigation between manufacturers and wholesalers and retailers as to just how far they could go. In 1951 there was a famous case of *Schwegmann Brothers* v. *Calvert Distillers Corporation*.[26] The creators of the "Gentleman of Distinction" who drinks Calvert whiskey had been trying to force all retailers

[26] 341 U. S. Reports 384.

to observe a minimum fixed price, presumably so that undistinguished gentlemen could not buy it. The Schwegmann Brothers of New Orleans – obviously no gentlemen – refused to comply, cut prices and brought suit when the distillers denied them further supplies of Calvert whiskey. The case went to the Supreme Court of the United States, which upheld the Schwegmanns, and declared that "when retailers are *forced* to abandon price competition, they are driven into a compact in violation of the spirit of the proviso which forbids 'horizontal' price fixing," and that the Calvert Company's attempt to fix prices by compulsion was illegal.

But that was not the end of it. The forces of fair trade, outraged at the Supreme Court's decision to give ungentlemanly consumers of whiskey a break, rallied and induced Congress to pass the McGuire Act in 1952, which contains the monstrous "nonsigner" clause. This means, in effect, that if manufacturer A has induced retailer X to sign an agreement to sell a certain brand of whiskey at $6.50 a bottle, every other retailer in the state is required to maintain the identical price upon mere notification thereof, even if he has refused to sign the agreement. President Truman signed this McGuire Act with evident reluctance, because he hoped it would "help small businessmen to stay in business," which he believed – mindful no doubt of his own experience – to be "a healthy thing for our economy and our society."

We have had fair trade in the United States now for twenty-five years, and it has never done for the little fellow what it promised. This particular check on economic freedom has not justified itself. And why? In the first place, fair-trade laws are exceedingly difficult to enforce. The states, reluctant to build up a new bureaucracy to snoop around for cut prices, have generally left enforcement to the big manufacturers, who have to bring court action against a recalcitrant retailer, or cut off his supplies; and the manufacturers themselves, when faced with a glutted inventory of goods, have frequently violated the law by dumping their advertised brands to be sold by the so-called discount houses. Naturally, when enforcement of a regulatory law is left to the very people whom it is supposed to regulate, its enforcement will be very spotty.

Second, the fair-trade laws are full of loopholes. The big department stores and mail-order houses in the United States, like Macy's, Gimbel's and Sears, Roebuck, have adopted the practice of inducing manufacturers to make special brands for them, or to rename a brand for them, especially in "big-ticket" items such as electrical and motorcar equipment. These special brands, though not nationally advertised, have proved upon test by Consumers' Research to be as good, and often better, than the widely ballyhooed ones. And fair-trade laws enable chain stores and mail-order houses to organize price raids on competitors by marketing these private brands at prices against which the independent retailers, limited to national brands whose prices are pegged by fair trade, cannot possibly compete.

And third, it is notorious that prices of very many items are less in the District of Columbia and the three states that have never passed fair-trade laws – Vermont, Missouri and Texas – than in adjoining states with fair-trade laws.

The United States Federal Trade Commission opposed the passage of the McGuire Act, with its notorious non-signer clause; and in April 1955 a national advisory committee of sixty, appointed by the Attorney General to report on fair trade, recommended repeal both of the Miller-Tydings Act of 1937 and the McGuire Act of 1952. The fair-trade system, declared this advisory committee, "strikes . . . at all price reductions which pass to the consumer the economies of competitive distribution. . . . It is the Committee's view that 'Fair Trade' when used as a device for relieving distributors from the rigors of price competition, is at odds with the most elementary principles of a dynamic free enterprise system." [27]

Now, it is an interesting instance of the close relation between our respective countries that on 28 March 1955, only three days before the Attorney General's advisory committee issued its report, the Restrictive Trade Practices Commission set up under the Department of Justice of Canada signed a report making recommendations along almost identical lines.

In the United States, however, the question was whether to maintain or repeal a system of legislation that had been tried for twenty-four years. In the Dominion, where very little fair-trade legislation had been passed, the question was whether it should be strengthened or allowed to die.

In a very thorough and comprehensive report of some three hundred pages,[28] the Canadian commission exposed

[27] *The 'Fair Trade' Question* pp. 67–71.

[28] Restrictive Trade Practices Commission, "Report on Inquiry into Loss-Leader Selling," published by Department of Justice, Ottawa, 1955. Conclusions are in *The 'Fair Trade' Question* pp. 77–92.

the sophistry of the "loss leader" argument, approved sales below actual net cost for "come-on" purposes, and declared that ordinary cut-price sales were of advantage not only to the Canadian consumer but to the manufacturer, who "in this manner taps a buying level which would not be reached in any other way." In the case that I mentioned, where a $54.50 floor polisher was marked down from $54.50 to $33.85, the commission found that the retailer actually made money – there was no loss. The commission declared its belief that "many maufacturers and merchants in Canada have been too much concerned in attempting to maintain conventional practices and have not given sufficient attention to adaptations which may be necessary under present competitive conditions." It concluded that no more fair-trade legislation was necessary or desirable in Canada. "It must be remembered," reported the commission, "that in our free economy, competition is the great regulating force that operates in the public interest, compelling producers, manufacturers and merchants to seek constantly to improve their methods of production and distribution. . . . Any legislative interference with freedom of competition, therefore, requires for its justification substantial proof of the serious character of the evil it is designed to correct."

American and Canadian economy is still highly competitive, and far more so than in Europe, where class feeling among producers and distributors prevents price competition or the passing along of economies in production to the consumer. It is more competitive than in the eighteenth century, when high transportation costs protected the local producer from distant producers.[29] Competition in retailing has been stimulated by marking the price, which did not become general until around 1890, and which, in certain lines such as "antiques" and other secondhand goods, does not prevail even today. Another and very modern form of competition is the contest between the old and the new; the desire for a new model, stimulated by advertising.

Few economists have analyzed the rôle of advertising in the modern economic world. The extent of it is one of the proofs that we have free enterprise still; for in totalitarian countries, where the state handles production and distribution, you need no more advertising than a radio announcement or posted notice that if you wish to buy a winter overcoat you had better queue up early Monday morning at a certain garment outlet, or go without. Advertising, too, has been brought under government regulation to prevent actual fraud or misrepresentation – especially in proprietary drugs and cosmetics – but it has become a necessary part of distribution. It has stimulated the receptivity of customers to new products. Having successfully persuaded the conservative male dresser to wear colored shirts instead of white ones, the profession is now engaged in breaking down adherence to the conventional black dinner jacket, and inducing the American gentleman to blossom out in pink, green and canary-colored tuxedos.

Its latest diabolical stunt is the trade-in sale for ready-made clothing. Many clothing stores in various parts of the United States will give you five to ten dollars off the price

[29] In a way, "fair trade" is an effort to restore the effective protection that high transportation cost formerly gave to small shops and industries.

of a new suit if you turn in your old one. The idea, it is explained in a trade journal, is that thousands of old suits hanging in men's wardrobes and closets are "psychologically blocking new consumer purchases." When the little woman says, "John, you need a new suit," and he replies, "I have three good old ones," she can now retort, "Turn 'em in for new ones, just as you did your old car." The "ad men" are in collusion with the women to deprive us men of one of our last rights and privileges – wearing out our old clothes.

Joking aside, the advertising business, by stimulating consumer demand throughout society, has greatly enhanced the demands of labor. Having convinced the workingman that the American way of life requires possession of a car, an electric refrigerator, a TV set, an electric stove and a dish-washing machine – or floor polisher – American industry must pay him enough to enable him to buy. Advertising, more than any other factor, has made the luxuries of yesterday the necessities of today; and if any profession in Canada or the United States is to be crowned or cursed for bringing about the present state of the economy, it is the "ad men."

The Challenge of Free Enterprise

During the second half of the twentieth century we are likely to have more rather than less free enterprise in North America, because our people want it. American and Canadian businessmen were thoroughly fed up during the war with having to go to Washington or Ottawa, and being given the runaround from one bureaucrat to another whenever they needed raw material, or to change their prices or wages. That gave them a prejudice against government interference that they are not likely to forget. But, at the same time, the power of organized labor and the farm vote will prevent any backward movement to the complete economic freedom of the nineteenth century. Unless our cities and our civilization are wiped out in an atomic war and we have to rebuild the economic community from scratch, there is no possibility of our recovering the sort of organization described by Adam Smith and John Stuart Mill.

Although the grand prizes of the future may go to the giant corporations, since they alone can command the capital for large-scale production, there is plenty of room left in our economy for the little fellows. In some instances, a large number of small businesses have replaced one big one. Manchester, New Hampshire, where most of the labor force is Canadian, seemed finished on Christmas Eve, 1935, when the great Amoskeag Cotton Manufacturing Company shut down forever. But, as of 1 October 1955, no fewer than a hundred and twenty different business and manufacturing enterprises occupy the old Amoskeag buildings, and they employ eleven thousand persons, almost exactly the same number that Amoskeag employed before the crash of 1929. The total payroll is far greater than that of 1929, and the entire community is more prosperous.[20]

Some capitalists and managers have been successful in meeting all challenges. Such a firm is the Plymouth Cordage Company of Plymouth, Massachusetts. Founded by a local

[20] Information from John R. McLane, Esq., of Manchester, N. H.

man in 1824, it has retained substantially the same ownership and management for one hundred and thirty years. It always had to import raw material, but a large part of its market was the shipbuilding industry of New England. After the first quarter-century the local labor force was gradually replaced by German, Italian and Portuguese immigrants. Markets were extended by making binder twine for the West. Efforts by the cordage trust to put the Plymouth company out of business, when it refused to be absorbed, were successfully resisted. In 1916, owing to a great increase in the cost of living, the workers went on strike, but the management eventually met their demands and learned to cope with twentieth-century labor conditions. It has also established a research section and met the challenge of new raw materials such as nylon. Fifty years ago, anticipating the great demand for its products in the growing economy of Canada, Plymouth Cordage established a subsidiary at Welland, Ontario. The Plymouth plant has been progressively enlarged and modernized, so that today it is the largest producer of cordage in the world. The company's chief manager is a direct descendant of Elder Brewster of the *Mayflower's* company, and a majority of its directors are descendants of the founders.

Conclusion

It was Voltaire, I believe, who said, "*Qui n'a pas l'esprit de son âge, de son âge a tout le malheur.*" That is very applicable to living economists. Not only the three weird sisters, Hayek, Jewkes and Schumpeter, but many who were brought up in the tradition of Adam Smith and Alfred Marshall, are unhappy about modern trends. Others have taken refuge in mathematical economics and econometrics, in which questions of wages, prices, investment, production, etc., are expressed in complicated equations that require a knowledge of calculus to comprehend. There are, however, a few economists in Canada, Great Britain and the United States who are making a sincere effort to understand and analyze the facts and trends of our times, and to tell us about them. Of these Sumner H. Slichter is the most vocal and, on the whole, the most optimistic. He, more than any other on this side of the Atlantic, and even more than Harrod, Keynes's disciple at Oxford, has the sense, or spirit, of our era.

So let us see what Slichter concludes in his recent book *The American Economy*, meaning the economy of the United States and Canada. He puts it first to economic tests, and then to social and political tests.

In the first category he finds the American economy highly successful at (1) increasing production; i.e., in the output per man hour. And this, he asserts, is due fundamentally to economic freedom, to the large measure of free enterprise that has survived.

(2) "Has the economy provided people with reasonable security and abundant opportunities?" Here, too, the record is excellent. Safeguards built into the economy during the New Deal have considerably flattened the mountains and filled in the valleys of the business cycle and so far prevented a postwar depression. We cannot yet appreciate

what ten years of continuously good employment have done for the morale of our Western world, or how profoundly disappointed the Soviets are at this outcome. Their entire diplomacy in the Stalin era was based on the expectation that American economy would go into a tailspin, followed by an American withdrawal from Europe comparable in its effects to the famous withdrawal of the Roman legions from Britain in A.D. 410. In the United States, and even more in Canada, owing to the spectacular development of iron ore, oil and uranium, jobs and business opportunities have increased faster than population.

(3) "Does the economy adjust itself effectively to new conditions?" To this query Slichter gives a qualified "Yes." Public policy "often moves slowly and timidly, avoiding issues until a large part of the community sees that a problem exists and demands action"; but business concerns have been quick to adapt themselves to changes, such as finding substitutes for scarce or vanishing raw materials.

(4) "Does the economy distribute its product widely and fairly?" Widely, yes; but whether fairly or unfairly depends on one's ethical standard in such matters. "There is no basis," says Slichter, "for the oft expressed fears that incomes are becoming concentrated in the hands of property owners." The lowest income group in the community has gained the most in developments since 1941; the fixed-income group has lost. There is a serious imbalance here, more so, I think, than Slichter admits, since he advocated the theory that slow inflation, forced by rising labor costs, is a lesser evil than chronic unemployment. Resentment over this imbalance on the part of a large section of the middle

class is generally supposed to be a main reason for the Republican Presidential victory in 1952. And the Republicans have helped slightly to redress the balance by checking inflation and preventing large further rises in prices.

(5) "Does the American economy provide a reasonable balance between the interests of consumer and those of producer?" Slichter thinks not. The effect of technological progress, he believes, has been to raise wages rather than to reduce prices; many gains in technology have not been passed along to the consumer. But, if technical change is a good thing, which we all assume, the present "ogliopoly,"[21] with its vast expenditures for research and invention, is far better than monopoly or statism, which tend to ignore new inventions and suppress changes that would be troublesome and costly.

On the side of noneconomic tests Slichter asks: (1) "Is industry operated with proper regard for the workers and their needs as human beings?" He points out the results of what has been called the "management revolution"; the studies conducted by the Harvard School of Business Administration on human relations in industry; the lessened authority of foremen and supervisors. Much remains to be done, but the outlook is bright for "more understanding and humane treatment of employees than has ever occurred in the history of the world." Compare, for instance, France, where a majority of factory workers are bitterly hostile to their bosses and foremen and vote communist.

(2) "Is our economic setup favorable to the development

[21] See Note 17, above. On this point see J. K. Galbraith *American Capitalism* (1952) pp. 90 ff.

of the arts and sciences, music and literature, scholarship and religion?"—to mention man's principal noneconomic needs. The answer is, reasonably so, and relatively far more than in any totalitarian state, although devotees of the opera and ballet may still regard Russia with longing. Doubtless the greater part of our cultural production is trashy, especially in music, television and literature; but most of us prefer freedom to produce and consume trash over any attempt of government to control taste. Apparently the British think so, too, judging by the recent opening of their TV circuits to commercials and commercially sponsored programs.

(3) "Does our economy furnish a favorable environment for democracy?" The answer is, emphatically yes. As long as government keeps its hands off organs of opinion like the newspaper and radio, reform agitation goes on.

The present division of power among government, industry and labor may be compared with the medieval division between church and state. We all seek a balanced society, as the Middle Ages did, and so far have been rather less successful than the Middle Ages. The present situation is overbalanced in favor of organized labor; but let us be patient and remember the century and a half that elapsed after the industrial revolution began, before labor got anything out of it, and the progressive fall in real wages between 1893 and 1916.

It is demonstrable that the workingman of the Western world, the man of limited education who earns his living by manual labor at the lower end of the scale, whether it be farming, fishing, industry or transport, now commands more goods and better services for less work than at any previous era of history, together with more social security. And the worker has not failed to observe that his real wage has improved while free competition has declined; that he has had to battle for his social gains through his unions and the vote. Is it surprising that, like the millionaire of 1890 who became a multimillionaire by 1910, he wants more of the same?

Our mixed system of semicontrolled free enterprise, squeezed between the upper millstone of the state and the nether millstone of the labor union, is still grinding out far greater benefits in terms of the good life than any other system known to us in the present or the past. Just as political freedom can, in the long run, be preserved only if the people are emotionally attached to it and observe the mutual toleration and forbearance that alone enable free institutions to flourish, so there must be a certain "climate" of business practice if free enterprise is to continue. "Whether we are to enjoy a free national market, as the commerce clause [of the Federal Constitution] envisages, depends as much upon the practices of business enterprise as upon governmental acts."[22] And the system is not immutable or eternal. It must continue to justify itself to the people, by making it possible for decent people to obtain remuneration commensurate with their ability and the results of their efforts.

In order to avoid drifting into a social system like that of imperial Rome, where the populace was kept docile by

[22] H. M. Holt, in A. W. Macmahon ed. *Federalism Mature and Emergent* (1955) pp. 160–161.

bread and circuses, or into a system akin to modern totalitarianism, our political and economic institutions must be implemented by religion. Free enterprise as it exists today, like the laissez faire out of which it grew, makes strong demands on human nature. It can only function in a society that believes in God and in the Hebraic-Hellenic ethics upon which Christianity built; a society where the great majority of people respect integrity and justice, practice honesty and fair dealing, and have higher values than mere wealth and comfort.

Most of the second half of the twentieth century lies ahead of us. If a substantial measure of economic freedom is to survive, it will be owing as much to our character and our wisdom as to any external or material influence such as war, technology and the exploitation of natural resources. Only a really Christian commonwealth is capable of preserving freedom; and without freedom, nothing in what we call civilization is worth preserving.