



**Council
for a
Competitive
Economy**

Richard W. Wilcke
President

June 29, 1981

Howard S. Rich, Vice President
EFFECTIVE PLUMBING CORPORATION
2001 Arthur Avenue
Bronx, New York 10457

Dear Mr. Rich:

On behalf of the staff and directors, I am delighted to welcome your firm as a member of the Council for a Competitive Economy. The Council is the only business organization in Washington stressing both the justice of economic freedom (as opposed to praising solely its efficiency) and the importance of a consistent advocacy of freedom by representatives of business (with no apologies for subsidies or protection).

For maximum effectiveness, it is important that the positions put forth by the Council be principled, well-researched and timely. Regardless of the industry in which you are involved, you will doubtless have opportunities to aid the staff by bringing items to our attention, advising us on conditions or technicalities or even testifying yourself. Nothing is more convincing than a business owner or executive, especially if opposed on principle to a government program designed to help him. In any case, let me urge you to let us know about your industry.

Please use Council materials to be active in your spheres of influence. And, if you know of others who may be interested in membership, by all means let us know.

Thank you, and welcome again.

Sincerely,



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Enclosures

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**Council
for a
Competitive
Economy**

**Will Businessmen Be the
Death of Free Enterprise?**

By Charles Koch
Chairman and Chief Executive Officer
Koch Industries

CHIEF EXECUTIVE

...a quarterly business publication written primarily by and for chief executive officers in American industry. It is also directed to decision makers in international business, government, labor and education.

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645 Fifth Avenue, New York, N.Y. 10022

Steel trigger prices, price supports for sugar and tobacco, federal bailouts for Penn Central, Lockheed and Chrysler, and tax subsidies for corporations with the best-connected lobbyists—is this free enterprise? When business leaders preach laissez-faire but practice a la carte capitalism it's enough to give free enterprise a bad name.

WILL BUSINESSMEN BE THE DEATH OF FREE ENTERPRISE?

BY CHARLES KOCH
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
KOCH INDUSTRIES

From all accounts no group seems less committed to free-enterprise capitalism than business people. Consider the following:

U.S. Steel is suing seven European nations (and may add others), charging that they "dumped" steel in the U.S., that is, they sold it for less than U.S. Steel.

Ford Motor Company and Chrysler Corp. have joined the United Auto Workers in seeking restrictions on automobile imports from Japan.

Chrysler has virtually given up day-to-day operation of its business to the U.S. government in return for federal loan guarantees.

The American Trucking Association has been the International Brotherhood of Teamsters' chief ally in opposing deregulation of the trucking industry.

Many businessmen have sanctioned President Carter's so-called voluntary wage-price guidelines by joining the Council on Wage and Price Stability (COWPS). (Not surprisingly, the Chamber of Commerce and National Association of Manufacturers supported President Nixon in 1971 when he imposed wage-price controls.)

Mobil Oil Corporation agreed to a \$30 million settlement with COWPS, which claimed Mobil violated the "voluntary" guidelines. Mobil chairman Rawleigh Warner, Jr. passed up a court challenge because, "We might have been responsible for bringing the whole Council... down."

Perhaps most ominous of all is the call for an "industrial policy" by several prominent businessmen. "Industrial policy" is a euphemism for state capitalism under which politicians and the appointed "spokesmen" for business and labor set "national goals" to which consumers and entrepreneurs must subordinate their own private goals. Businessmen such as Felix Rohatyn and Henry



Kaufman advocate such a policy, including revival of the Depression-era Reconstruction Finance Corporation, as a way to make America competitive again. Their solution to America's stagnant economy is to shackle it with a comprehensive system of government intervention that would include loans to and equity investments in uncompetitive industries.

But this is not new. Businessmen have always been in the forefront of the crusade for government manipulation of the American economy. Nearly every major piece of interventionist legislation since 1887 has been supported by important segments of the business community.

Observers viewing this history rightly conclude that many business people don't like the free market. *New York Times* columnist William Safire wrote, "The secret desire of so many top-level managers for controls and regulated monopoly is never openly stated... But today's managerial trend is not toward accepting risk. It is toward getting government to help avoid risk."

This is apparent everywhere, especially where imports are concerned. The steel industry is asking for duties because European and Japanese steel sells for less here. This the American producers call "dumping" and "unfair competition." In fact, it is nothing more or less than effective competition. The industry complains that the competition is unfair because it doesn't operate under the same conditions as American firms. What they don't seem to understand is that the economy is not a game or a race. Its purpose is to satisfy consumers through voluntary exchange. If a Japanese steel firm undersells its American competitor, nothing unfair has occurred. The transac-

tions are voluntary, and that is the only criterion of fairness. (True, the Japanese government is unfair to its citizens when it subsidizes the steel industry, but that is a matter for the Japanese to work out.)

In the case of autos, unfair competition is not even alleged! American firms lagged behind the Japanese in making what Americans want, so they want the government to limit imports to allow them to catch up. This is free enterprise?

My own industry, oil, is no different. Over the past several years our company has participated in dozens of hearings on regulatory matters before the Federal Energy Administration and the Department of Energy. At virtually all of these hearings, many oil companies favor state regulation. As former energy secretary James Schlesinger once put it, "The oil industry loves regulation and has been in love with it for many years."

The old business strategy of accommodation with government paid off in the past to some extent, but today it falls on its face. Business now suffers as much as the rest of society from the adverse consequences of its own interventionism. For example, a refiner may procure price controls on his purchased crude oil, yet later experience shortages and even find price controls slapped on his own gasoline to capture his politically derived "excess" profits. When price controls are finally phased out, oil producers are hit with a "windfall profits" tax on grounds that they don't have a right to the market price for their product. Oil pipeline companies invite the DOE to study regional pipeline needs hoping that their particular project will be favored. But in the future, Washington may make all pipeline decisions and even build all pipelines.

Businessmen should realize that the more regulated an industry becomes, the less it can cope with changing conditions. It is no coincidence that the lowest-ranking industries in return on capital today—such as

railroads, natural gas and electric utilities—are also the most highly regulated. The inability to respond to new conditions is offered as an excuse for the proposed massive intervention of an “industrial policy.”

Richard Ferris, president of United Airlines, an exception in his industry, predicted that, “Continued governmental control will mean airline service as you know it will be seriously jeopardized. And, as service and equipment deteriorate, you will stand by helplessly as the threat of nationalization becomes reality.” In the electric utility industry, a number of states have already organized agencies to take over private utilities unable to finance needed additional generating capacity.

Even business’ occasional success in achieving a favorable regulatory scheme does not guarantee future control. On the contrary, politically derived benefits for business cause hardships for other special-interest groups who apply pressure on the regulators to turn the regulatory weapons around. What executives fail to understand is that their support for special privilege upholds the principle of government intervention and undermines market forces.

The business community is now aware of the shortcomings of this strategy as more firms suffer the effects of their own pathetic schemes. Moreover, examples of even more dire consequences of interventionism, especially the plight of the railroad industry in the U.S. and major industries in Great Britain, are awakening businessmen to their own probable fate.

They are also becoming justifiably concerned about the rapidly growing antibusiness sentiment in this country. Public opinion polls show that a large portion of intellectuals and the general public believe that business—especially big business—enjoys undue political power which it uses to stifle competition and to control prices.

Businessmen have only themselves to blame for this. The hypocrisy of talking free enterprise while practicing state capitalism has discredited free-market rhetoric. The enemies of economic liberty have been handed a weapon they never could have won for themselves. But even those business people who claim to believe in capitalism have sold it short. The opponents of liberty put their arguments in moral terms. Galbraith, Nader, Heilbroner and others have branded capitalism wrong and harmful. But too many business people sidestep the moral issue. When a critic calls capitalism evil, the businessman answers, in effect, “Yes, but at least it’s efficient.”

Obviously, this is no defense. If businessmen wonder about what the source of the anticapitalists’ momentum is, it is the result of the procapitalists having given away the moral case. Obviously, capitalism’s own defenders don’t know its virtues. As William Hayes, executive vice president of the Council of Industry of Southeastern New

York, wrote in a letter to *Business Week*, “To defend capitalism on the basis of its ability to produce more cars, more shoes, more television sets is to trivialize the discussion. The ethical basis for capitalism is as the only social system in human history that is consistent with individual freedom.” When will business people learn this?

Businessmen have dug themselves into a hole but they can get themselves out—if they want to. As *The Wall Street Journal* has written, “Despite the blows they have suffered in the political arena [businessmen] still have the capacity to be highly influential in the political sphere. But they will not bring about such a reversal unless they are able to put aside short-term concepts in favor of those longer-term considerations. . . . We may be reaching the point where American businessmen will have to decide whether they really believe in the market system. If they don’t, it is hard to see who will muster the political forces to defend it against its very real and often intensely committed enemies.” In spite of business’ sullied record in defending free enterprise, there are large numbers of businessmen who want nothing more from government than to be left alone. And these numbers are growing quickly.

To survive, business must develop a new strategy. The great free-market economist and Nobel Laureate F.A. Hayek has prepared a guide for us:

Almost everywhere the groups which pretend to oppose socialism at the same time support policies which, if the principles on which they are based were generalized, would no less lead to socialism than the avowedly socialist policies. There is some justification at least in the taunt that many of the pretending defenders of “free enterprise” are in fact defenders of privileges and advocates of government activity in their favor, rather than opponents of all privileges. In principle, the industrial protectionism and government-supported cartels and the agricultural policies of the conservative groups are not different from the proposals for a more far-reaching direction of economic life sponsored by the socialists. It is an illusion when the more conservative interventionists believe that they will be able to confine these government controls to the particular kinds of which they approve. In a democratic society at any rate, once the principle is admitted that the government undertakes responsibility for the status and position of particular groups, it is inevitable that this control will be extended to satisfy the aspirations and prejudices of the great masses. There is no hope of a return to a freer system until the leaders of the movement against state control are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept. The hopelessness of the prospect for the near future indeed is due mainly to the fact that no organized political group anywhere is in favor of a truly free system.

Before businessmen can serve as effective defenders of individual liberty and the free enterprise system, it is first necessary for them to learn precisely what free enterprise is and what it is not. We must do our homework; we must comprehend “the philosophic foundations of a free society.” Only then will we have the necessary resolve to carry out the difficult task ahead.

Businessmen must practice what they preach. People see our inconsistencies and, quite justifiably, don’t believe us anymore. We request welfare for ourselves while attacking welfare for the poor. Our critics rightfully claim that we want socialism only for the rich.

Our credibility cannot be regained if we continue to file, hat in hand, to Washington while mouthing empty, insincere platitudes about free enterprise. We cannot continue to have it both ways. Government will not keep granting us favors, on the one hand, while allowing us to run our businesses as we see fit, on the other. **We must stop defending existing interventions and demanding new ones.** This might diminish the impetus for new regulations and win new allies for us among intellectuals, legislators and the general public.

Asking for tighter regulation of a competitor even if he has the advantage of being less regulated than you are starts a suicidal cycle that ends in the destruction of both of you. Instead, we should concentrate on loosening our own regulations. We must do away with all interventions, even those that provide short-term profits.

Taxes are particularly troublesome, because it is thought that tax exemptions are equivalent to subsidies. Yet, morally and strategically, tax exemptions are the opposite of subsidies. Morally, lowering taxes is simply defending property rights; seeking a subsidy is asking the government to steal someone else’s property for your benefit. Lowering taxes reduces government; subsidies increase government. Since our goal should be to roll back government, we should consistently work to reduce taxes, our own and those of others.

Finally, we should not cave in the moment a regulator sets foot on our doorstep. Put into practice legal scholar Henry Manne’s recommendation that “the business community should use available techniques of legal adversary proceedings to announce publicly and vigorously, both as individual companies and through associations, that it will not cooperate with the government beyond the legally compelling minimum in developing or complying with any control program.” As he urges, “Publicize as widely as possible the inevitable inefficiencies, mistakes, and human miseries that will develop with these controls. . . . help the public understand that morality, in the case of arrogant, intrusive, totalitarian laws, lies in the barest possible obedience and in refusal to cooperate willingly beyond the letter of the

law." Do not cooperate voluntarily; instead, resist wherever and to whatever extent you legally can.

Business' educational strategy has been guided by greater concern with short-term respectability and acceptance than with long-term survival. We have supported universities and foundations philosophically dedicated to the destruction of business and what remains of the free market. We must stop financing our own destruction.

Even when business supports "free enterprise" education it is ineffectual because businessmen have little understanding of it. They spend their money on disasters such as "free enterprise" chairs at their alma mater and watch in dismay as holders teach everything but free enterprise.

Also largely wasted is the money contributed to those private colleges that make free enterprise noises, but fail to produce competent graduates dedicated to establishing the free enterprise system.

The development of talent is, or should be, the major point of all these efforts. To be effective, this talent must have the knowledge, skill and sophistication to meet statist adversaries and their arguments head on and to defeat them. They must have the desire and commitment to unceasingly advance the cause of liberty. During the 15 years I have been actively investing my time and money in reestablishing our free society, our biggest problem has been the shortage of talent. Statists have succeeded while we floundered because they have had the talent and the cadre to develop and sell their programs.

Our direct defense of business, particularly our media advertising is either clumsy and pitifully ineffectual or else downright destructive. We substitute intellectual bromides for a cogent explanation of our point of view. We take a conciliatory attitude. Our ads apologize for profits.

We accept the fallacious concept that the corporation has a broad "social responsibility" beyond its duty to its shareholders. We are ashamed of private ownership and profits, and are hoodwinked into characterizing government regulations as "virtuous" and in the "public interest." As a typical example, the Advertising Council, backed by most major U.S. corporations, describes regulations as "the promotion of fair economic competition and the protection of public health and safety." This is nonsense.

Instead of this bankrupt approach, we need to go on the offensive. We should cast aside our desire to be popular with colleagues and the establishment intellectuals, and overcome fear of government reprisals. We need to advertise that the market system is not only the most efficient, but also the most moral system in history. We need to attack government regulations for wreaking havoc on those it is allegedly designed to help—those least able to fend for themselves. We need to stigmatize interventionism as

Observers conclude that many business people don't like the free market... "today's managerial trend is not to accept risk, but to avoid it!"

intrinsically unjust because it deprives individuals of their right to use their lives and property as they see fit. We need to defend the right of "capitalist acts between consenting adults," in the words of business scholar Robert Nozick.

A recent demonstration of the need for arguments beyond the standard one of efficiency is the Supreme Court decision upholding a Maryland law (passed at the bidding of a service station dealers association) barring oil producers and refiners from operating service stations. The court found that "regardless of the ultimate economic efficiency of the statute, we have no hesitancy in concluding that it bears a reasonable relation to the state's legitimate purpose in controlling the gasoline retail market..." Effective defense of business will not rest on arguments based on efficiency, but on justice. To claim that that state has the right to "control the gasoline retail market" is totalitarian nonsense.

We must demand the same principled behavior of our organizations as we do of ourselves and our companies. When, for example, the Committee for Economic Development advocates "that public-private partnerships must be an essential part of any national urban strategy," business should withdraw its support. It should do the same if the Chamber of Commerce continues to promote government intervention under the philosophy espoused by a former president, "It's not possible or desirable to remove all the regulations." We need new business organizations that refrain from asking for state protection and subsidies, and that criticize, expose and lobby against instances of political capitalism and "the partnership between business and government." They should be unafraid to criticize alleged defenders of market capitalism when it is undermined. For example, the U.S. Chamber of Commerce has vigorously defended the Comprehensive Employment Training Act (CETA) program on grounds that "the government will pay and train the hard-to-employ." Who is willing to condemn the Chamber for its anti-market stance? Such a group exists: The Council for a Competitive Economy. Launched a year ago, the Washington-based Council propagates the ethical case for capitalism and seeks to attract business people who believe in the importance of this mission. Its full-time staff has researched and presented testimony on such issues as the Chrysler bailout,

trucking deregulation, auto import restrictions and gasoline rationing. This group of over 1,000 companies and individuals supports the unregulated, unsubsidized free market and opposes all government favoritism, protectionism and special privilege. Whether it's aid to the tourist industry or antitrust law, the Council objects on principle to all disruptions of the market process.

Such an organization will help businessmen avoid blunders similar to that of the Wichita Chamber of Commerce when it heavily promoted a billion-dollar coal gasification plant, which would have been partially owned by Wichita and subsidized by Washington. The people of Wichita rejected Chamber propaganda that the plan would not cost them anything and voted it down. Other blunders can be prevented, such as the California business community's tax-cut opposition. These blunders create an image of business in cahoots with government to tax and exploit these people. Milton Friedman describes this as business following "its unerring instinct for self-destruction."

If a free market is our aim, the issue of political realism is no obstacle. Day-to-day politics operates in a framework of values. Up until now, those values have been supplied by the anticapitalists, whether of the Ralph Nader or Felix Rohatyn stripe. Our job is to finally provide real competition to them by making the moral case for capitalism. By doing so, we will stretch the perimeters of public debate until it includes free-market ideology. But that cannot happen until business people talk about it publicly, and have the courage to defend their rights.

Business can survive, but not without the help of businessmen. By fighting against interventions, however profitable, and by defending the free enterprise system, businessmen can be a vital force in establishing a free society. To date, businessmen have not seen fit to do so. Whether they will in the future may determine whether business has a future. Or deserves to. ■



Charles Koch is chairman of Koch Industries, a \$3 billion privately-held producer of oil, gas and plastic products in Wichita, Kansas. He is also chairman of the board of directors of the Council for a Competitive Economy in Washington, D.C.



**Council
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Economy**

Defending the Market Economy



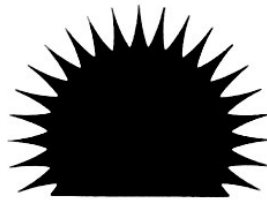
Defending the market economy is, of course, the main goal of the Council for a Competitive Economy. Thus it is appropriate that our first set of reprinted articles deals directly with that concern.

The authors represented here have different perspectives on the problem, but they all agree on several basic points: that the free market economy is the most just and efficient economic system possible; that it is therefore worth defending; that those who should be its strongest defenders are at present doing a less than adequate job; and that a better defense of the market is both necessary and possible.

We believe you will find the articles in this series provocative and important. We hope they will provide some ideas that can be acted upon. And we hope that in this and other ways the Council can play a significant role in defending the free market economy.

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"Businessmen do not display constant devotion to free market principles. They, like any other groups in society, often ask government for favors, subsidies, and protection they should not have. When that happens, as it will, they may expect to be opposed vigorously, by those who are otherwise their allies in preserving the institutions of the free market. To the degree that business leaders behave that way, they undercut their credibility on issues where their position accords with the public interest."

Reprint Series

Capitalism and the Corporate Executive

By Robert H. Bork

It is commonplace that the corporation is today one of the least liked and respected institutions in American society. It is also, and partly for that reason, the tendency of current public policy to thrust great and increasing costs upon business in order to achieve a wide variety of social goals. These costs are reaching levels that now impair the efficiency of our economic system and may shortly threaten the capacity of corporations to perform—in terms of production, investment, and employment—in ways the public regards as adequate. Since capitalism as a system is not widely loved for itself but is, rather, tolerated for its superior performance, the prospect is worrisome. Unacceptable performance will not be attributed to the costs imposed by government but will be blamed upon the corporate system. The demand will be for further reforms that threaten the continued existence of capitalism.

The puzzles are—Why is this happening? How can the system be defended? and, particularly, Why is it not being defended more vigorously?

Robert H. Bork, former solicitor general of the United States and resident scholar of the American Enterprise Institute, is Chancellor Kent professor of law at Yale School.

We must recognize that these may be the wrong questions altogether. The problem may not be specific to corporations and capitalism. The fact is that the institutions of our society are generally in decline. It is a phenomenon Robert Nisbet calls the "twilight of authority." In the last ten or fifteen years most of our major institutions—government, corporations, the military, universities, the family—all have experienced a loss of respect and of moral authority, so that one is inclined to suspect a more general cause at work than simple, specific distrust of business and capitalism. Perhaps the causes lie in the related phenomena of an explosive growth of the intellectual class and an upsurge of an egalitarianism that distrusts and denigrates all centers of perceived power. Be the causes what they may, it is apparent that there has been a flattening of the American institutional landscape.

Political battles, however, cannot be conducted in terms of general societal trends. They must be fought in terms of particular proposals for the reform of specific institutions. It is also true that victories and losses on confined fields affect trends in larger areas.

When we examine the conditions necessary for the continued vigor of our corporations and the survival of the capitalist system, the issue of moral

authority is crucial. Capitalism has performed unprecedented feats in the production of material well-being, but economic performance by itself is not enough. Institutions that hope to survive in a society like ours have to be seen as possessing moral authority: their powers and their wealth must be accepted in some moral and political sense as legitimate. It is apparent that corporations have little moral authority and very little notion of how to regain it.

It is instructive to meet the leaders of the major American corporations when they are out of the office, gathered together, and thinking about their position in the society. These are the people thought of by the general public and by the critics of the corporate system as bold, rapacious, cunning leaders, the Machiavellis of our society. There could hardly be a greater disparity between that image and the reality. In their concerned discussions of their relationships with the outside world, one finds many of them to be docile, apprehensive, defensive, and unsure of how to respond to sharp and unrelenting attacks.

I remember a talk in which a prominent businessman said that he and his colleagues were concerned that the large American corporation does not possess legitimacy in the eyes of the rest of society. He asked how they could alter

and head off punishing "reforms" is like tinkering with a leaky faucet in the hope of averting the Johnstown flood.

My other reaction was surprise at the mood of defeat, of lowered morale, that suffuses meetings to discuss problems of this sort. It is as though a large fraction of the community of business leaders wants to make preemptive concessions, as if they meet not to plan a fight against a wrongheaded movement but to discuss how best to negotiate the terms of surrender.

That attitude, a defensive posture and an expressed willingness to make unwise changes in order to be accepted, will not lead to peace and popularity, much less to reestablishment of moral authority. It will be seen as weakness and will earn only the contempt of the enemies of corporations and capitalism, while leading the large, relatively indifferent majority to suppose that the critics must be right: if capitalism were a positive good and worth defending, business leaders would not be so ready to compromise and, if need be, to capitulate. To ask what you can do to be accepted is to admit that you are not acceptable. Nobody ever got into a club that way.

The hostility that fuels the attack upon corporations arises from an alliance or, perhaps more properly, a congruence of interests and beliefs between socialists, populists, politicians, and intellectuals. In that constellation the intellectual class seems the crucial element, for it provides the indispensable theoretical apparatus with which the institutions of capitalism are attacked. The academic branch of the intellectual class, which is the creative core, produces an enormous amount of scholarship designed to prove that free economic and social progress

the bourgeoisie, a class that is associated with business. The shift of power from business to government represents a shift from the primacy of the market to the primacy of politics and hence a gain to the intellectual class at the expense of the bourgeoisie. There may be a great deal of truth in that hypothesis, but perhaps it is not the entire explanation.

Allowance must also be made for the economic ignorance that characterizes not only the population at large but the intellectual class. Few intellectuals have been exposed to a good basic course in price theory. Most of them have no firm idea of the functions that markets serve and they tend to suppose that better economic results can be ordered by law. Thus, the great majority of academics appear honestly to believe that minimum wage laws benefit workers as a class, supposing that such measures simply transfer wealth from wealthy businesses to poor workers. People who believe that have no difficulty supporting detailed regulation of all business activity since they have little notion either of its real costs or upon whom those costs ultimately fall.

But I think we also overlook the environment in which professors spend their lives, that we underrate the influence exerted on professors by their students. All studies show that when students first enter college their political sympathies shift massively to the left, a phenomenon usually taken to be the result of the intellectual atmosphere created by the faculty. No doubt that is partially true, but it may not be the entire story. Students entering universities are for the first time in their lives freed of the

boredom at the ceiling, whisper to one another, and so on. But as he walked in the other direction toward the windows, they would become increasingly attentive until, as he paused by the windows, they would be leaning forward in rapt attention. After being subjected to fifteen minutes of this alternating treatment, the professor was pinned to the outside wall, quite unconscious of what had happened to him. It seems likely that an analogous sort of conditioning, taken over a period of ten or fifteen years, may modify the political outlook of many professors at universities.

There are, of course, other factors influencing the outlook of intellectuals, one or two of which require brief mention. Intellectuals, like other people, are apt to find capitalism uninspiring because it lacks a central vision, seems to offer no meaning to personal existence beyond the narrowest self-interest. That is hardly capitalism's fault, since in modern times at least it does not pretend to be more than a means of organizing production and distribution. But other systems of belief that once lived alongside capitalism and supplied its spiritual lack have declined, perhaps in part due to the rationalist attitudes inculcated by capitalism. People tend to want more than rationalism, self-interest, and material prosperity. They appear to hunger for transcendental values, and socialism and similar creeds offer secularized versions of such values as capitalism does not. They offer, though the promise is false and never realized in practice, a vision of community, of concern for society at large, of man seen

heels. That's a myth constructed out of whole cloth. The plain fact is that at no other time in human history has the ordinary man improved his condition and benefited his life as much as he did during that period of the 19th century when we were the closest to free enterprise.

Many of us, I venture to say, are beneficiaries of that period. I speak of myself. My parents came to this country in the 1890's. Like millions of others, they came with empty hands. They were able to find a place in this country, to build a life for themselves and to provide a basis on which their children and their children's children could have a better life. There is no saga in history remotely comparable to the saga of the United States during that era, welcoming millions of people from all over the world and enabling them to find a place for themselves and to improve their lives. And it was possible only because there was an essentially free society.

If the laws and regulations that today hamstring industry and commerce had been in effect in the 19th century, our standard of living today would be below that of the 19th century. It would have been impossible to have absorbed the millions of people who came to this country.

What produced the shift? Why did we move from a situation in which we had an essentially free society to a situation of increasing regimentation by government? In my opinion, the fundamental cause of most government intervention is an unholy coalition between, on the one hand, well-meaning people seeking to do good and, on the other, special interests (meaning you and me) seeking advantage from government.

The great movement toward government has not come about as a result of people with evil intentions trying to do evil. No, it has come about because of good people trying to do good. But they have tried to do good with other people's money, and doing good with other people's money has two basic flaws. In the first place, you never spend anybody else's money as carefully as you spend your own. So a large fraction of that money is inevitably wasted. In the second place, and equally important, you cannot do good with other people's money unless you first get the money away from them, so that force—sending a policeman to take the money from somebody's pocket—is fundamental to the philosophy of the welfare state. That is why the attempt by good people to do good has led to disastrous results.

It was this movement toward welfare statism that produced the phenomenon in Chile which ended with the Allende regime. It is this tendency to try to do

good with other people's money that has brought Great Britain—once the greatest nation of the earth, the nation which is the source of our traditions and our values and our beliefs in a free society—to the edge of catastrophe.

When you start on the road to do good with other people's money, it is easy at first. You've got a lot of people to pay taxes and a small number of people for whom you are trying to do good. But the later stages become harder and harder. As the number of people on the receiving end grows, you end up taxing 50 percent of the people to help 50 percent of the people—or really, 100 percent of the people to distribute benefits to 100 percent!

The Future

Where do we go from here? People may say, "You can't turn the clock back. How can you go back?" But the thing that always amuses me about that argument is that the people who make it, and who accuse me or my colleagues of trying to turn the clock back to the 19th century, are themselves busily at work trying to turn it back to the 18th century.

Adam Smith, in 1776, wrote *The Wealth of Nations*. It was an attack on the government controls of his time—on mercantilism, on tariffs, on restrictions, on governmental monopoly. But those are exactly the results which the present-day reformers are seeking to achieve.

In any event, that's a foolish question. The real question is not whether you are turning the clock back or forward but whether you are doing the right thing.

Some people argue that technological changes require big government and you can no longer talk in the terms of the 19th century when the federal government only absorbed three percent of the national income.

That's nonsense from beginning to end. Some technological changes no doubt require the government to engage in activities different from those in which it engaged before. But other technological changes *reduce* the need for government. The improvements in communication and transportation have greatly reduced the possibility of local monopoly which requires government intervention to protect the consumers. Moreover, if you look at the record, the great growth of government has not been in the areas dictated by technological change. The great growth of government has been to take money from some people and to give it to others. The only way technology has entered into that is by providing the computers which make it possible to do so.

Other people will say, "How can you

talk about stopping this trend? What about big business? Does it really make any difference whether automobiles are made by General Motors, which is an enormous bureaucratic enterprise employing thousands of people, or by an agency of the United States Government, which is another bureaucratic enterprise?"

The answer to that is very simple. It does make all the difference in the world, because there is a fundamental difference between the two. There is no way in which General Motors can get a dollar from you unless you agree to give it to them. They can only get money from you by providing you with something you value more than the money you give them. If they try to force something on you that you don't want—ask Mr. Henry Ford what happened when they tried to introduce the Edsel.

On the other hand, the government can get money from you without your consent. They can send policemen to take it out of your pocket. General Motors doesn't have that power. And that is all the difference in the world. It is the difference between a society in which exchange is voluntary and a society in which exchange is not voluntary. It's the reason why the government, when it is in the saddle, produces poor quality at high cost, while industry, when it's in the saddle, produces high quality at low cost. The one has to satisfy its customers and the other does not.

Two Scenarios

Where shall we go from here? There are two possible scenarios. The one is that we shall continue in the direction in which we have been going, with gradual increases in the scope of government and government control. If we do continue in that direction, two results are inevitable. One is financial crisis and the other is loss of freedom. Great Britain is a frightening example to contemplate. It moved in this direction earlier than we and has gone much further. The effects are patent and clear. But at least when Britain moved in this direction and thus lost its power politically and internationally, the United States was there to take over the defense of the free world. But I ask you, if the United States follows the same course, who is going to take over from us? That's one scenario, and I very much fear it's the more likely one.

The other scenario is that we shall, in fact, halt this trend—that we shall call a halt to the apparently increasing growth of government, set a limit, and hold it back. There are many favorable signs from this point of view.

I may say that the greatest reason for hope, in my opinion, is the inefficiency

of government. Many people complain about government waste, but I welcome it. I welcome it for two reasons. In the first place, efficiency is not a desirable thing if somebody is doing a bad thing. A great teacher of mine, Harold Hotelling, a mathematical economist, once wrote an article on the teaching of statistics. He said, "Pedagogical ability is a vice rather than a virtue if it is devoted to teaching error." That's a fundamental principle. Government is doing things that we don't want it to do; so the more money it wastes, the better.

In the second place, waste brings home to the public at large the fact that government is not an efficient and effective instrument for achieving its objectives. One of the great causes for hope is a growing disillusionment around the country with the idea that government is the all-wise, all-powerful big brother who can solve every problem that comes along, that if only you throw enough money at a problem it will be resolved.

Several years ago John Kenneth Galbraith wrote an article in which he said that New York City had no problem that could not be solved by an increase in government spending in New York. Well, since that time, the budget in the city of New York has more than doubled and so have the problems of New York. The one is cause and the other effect. The government has spent more, but that meant that the people have less to spend. Since the government spends money less efficiently than individuals spend their own money, as government spending has gone up, the problems have gotten worse. My main point is that this inefficiency, this waste, brings home to the public at large the undesirability of governmental intervention.

There are also many unfavorable signs. It's far easier to enact laws than to repeal them. Every special interest, including you and me, has great resistance to giving up its special privileges. I remember when Gerald Ford became president and called a summit conference to do something about problems of inflation. I sat at that summit conference and heard representatives of one group after another go to the podium—a representative of business, a representative of labor, you name the group—they all went to the podium and they all said the same

things: "Of course, we recognize that in order to stop inflation we must cut down government spending. And I tell you, the way to cut down government spending is to spend more on me." That was the universal refrain.

Many people say that one of the causes for hope is the rising recognition by the business community that the growth of government is a threat to the free enterprise system. I wish I could believe that, but I do not. You must recognize the facts. Business corporations in general are not defenders of free enterprise. On the contrary, they are one of the chief sources of danger.

The two greatest enemies of free enterprise in the United States, in my opinion, have been, on the one hand, my fellow intellectuals and, on the other hand, the business corporations of this country. They are enemies for opposite reasons.

Every one of my fellow intellectuals believes in freedom for himself. He wants free speech. He wants free research. I ask him, "Isn't it a terrible waste that a dozen people are studying the same problem? Oughtn't we to have a central planning committee to decide what research projects various individuals undertake?" He'll look at me as if I'm crazy, and he'll say, "What do you mean? Don't you understand about the value of academic freedom and freedom of research?" But when it comes to business he says, "Oh, that's wasteful competition. That's duplication over there! We must have a central planning board to make those things intelligent, sensible!"

So every intellectual is in favor of freedom for himself and against freedom for anybody else. The businessman and the business enterprises are very different. Every businessman and every business enterprise is in favor of freedom for everybody else, but when it comes to himself, that's a different question. We have to have that tariff to protect us against competition from abroad. We have to have that special provision in the tax code. We have to have that subsidy. Businessmen are in favor of freedom for everybody else but not for themselves.

There are many notable exceptions. There are many business leaders who have been extremely farsighted in their understanding of the problem and will come to the defense of a free enterprise

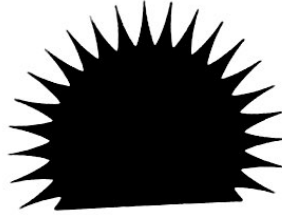
system. But for the business community in general, the tendency is typified by U. S. Steel Company, which takes ads to extol the virtues of free enterprise but then pleads before Congress for an import quota on steel from Japan. The only result of that is for everybody who is fair-minded to say, "What a bunch of hypocrites!" And they're right.

Now don't misunderstand me, I don't blame business enterprise. I don't blame U. S. Steel for seeking to get those special privileges. The heads of U. S. Steel have an obligation to their stockholders, and they would be false to that obligation if they did not try to take advantage of the opportunities to get assistance. I don't blame them. I blame the rest of us for letting them get away with it.

A Matter of Faith?

Where are we going to end up? I do not know. I think that depends upon a great many things.

I am reminded of a story which will illustrate what we may need. It has to do with a young and attractive nun who was out driving a car down a superhighway and ran out of gas. She remembered that a mile back there had been a gas station. She got out of her car, hiked up her habit, and walked back. When she got to the station, she found that there was only one young man in attendance there. He said he'd love to help her but he couldn't leave the gas station because he was the only one there. He said he would try to find a container in which he could give her some gas. He hunted around the gas station and couldn't find a decent container. The only thing he could find was a little baby's potty that had been left there. So he filled the baby potty with gasoline and gave it to the nun. She took the baby potty and walked the mile down the road to her car. She got to her car and opened the gas tank and started to pour it in. Just at that moment a great big Cadillac came barreling down the road at 80 miles an hour. The driver was looking out and couldn't believe what he was seeing. So he jammed on his brakes, stopped, backed up, opened the window and looked out and said, "Sister, I only wish I had your faith!"



"To be convincing, a strategy based on principle requires a consistency that is sorely lacking in business's actions and advocacy now. Too often, business's political positions are opportunistic and unprincipled, and even subversive of the free market. Few traits are as repugnant as hypocrisy, and it seems likely that the incessant pleas for subsidies and protection from competition have done as much as all the Naderite diatribes to undermine the credibility of 'free' enterprise."

Reprint Series

Pragmatic Politics Won't Win for Business

By A. F. Ehrbar

The propensity of politicians to focus on near-term results is a major reason why sensible public policies are not adopted more often. Their eyes fixed firmly on the next election, politicians routinely reject measures that would bring immediate discomfort in favor of inferior short-run palliatives that frequently make underlying problems worse. Lately it has become increasingly apparent that business leaders are afflicted with a similar myopia, at least when it comes to dealing with government. Many large companies are pursuing a strategy that can be described only as one of accommodation and concession. They acquiesce to unwarranted demands by regulators and the White House, and they frequently take positions that are inimical to their long-term interests.

This has been most strikingly evident recently in the nearly universal endorsement of President Carter's wage-and-price guidelines. Though few executives believe that their price increases are anything more than symptoms of inflation, all but a handful of the country's largest companies have promised to cooperate with the program. Some have rolled back prices at the behest of inflation adviser Alfred Kahn, and practically every large company is diverting a lot of high-priced manpower to compiling copious reports for the Council on Wage and Price

Stability.

The biggest among big businesses not only are going along with the price standards, but also are helping cajole other companies into line. The corporate statesmen who make up the Business Roundtable are such enthusiastic boosters that they qualify as a sort of unofficial COWPS auxiliary. Thomas A. Murphy, chairman of General Motors and of the Roundtable, has written the heads of the FORTUNE 500 and 22,000 G.M. suppliers, urging them to comply, and G.M. has been running ads touting the program. Murphy has been hawking the guidelines even though, he told FORTUNE, he believes that they cannot reduce inflation, and that the other part of the Carter program—fiscal and monetary restraint—can succeed without them.

Why is Thomas Murphy pushing a policy that is both bad for General Motors and bad for the country? To some extent, it may be a patriotic gesture, reflecting a feeling that the President is the President, and everybody ought to try to follow his leadership, especially in troubled times. But, more fundamentally, the answer can be found by looking beyond business's reaction to the guidelines, or any other single issue, and examining the whole pattern of business behavior that adds up to the strategy of concession. Consider these commonly

observed rules of behavior:

- Play along with the White House as much as possible. This principle reflects executives' beliefs that they stand a better chance of getting a receptive hearing from the Administration on the issues that affect them most directly if they play ball with the President on issues of lesser importance. Says Laurence H. Silberman, a Washington lawyer and former deputy attorney general: "There aren't many companies that don't think they need an open door to the White House."

- Cultivate the image of being a "responsible" corporate citizen. One chief executive explains the principle this way: "It is important in dealing with Washington that you be seen as wearing a white hat or, at the worst, a light tan one." Businesses in bad odor with the public are thought to be easier for the government to kick around. "This is a particularly acute factor where health and the environment are concerned," says Walter B. Connolly Jr., another Washington lawyer. "Companies keep quiet because public perception tends to cast industry in the 'bad guy' role." And, like Willy Loman, chief executives simply want to be liked.

- Do not support positions, even when your convictions say you should, that would offend a Congressman you de-

pend on to take your side in disputes with the regulatory agencies. If you do, you are likely to lose your protector. Says one auto executive. "People come in packages, and there is a feeling that you have to buy the whole thing."

■ In dealing with the agencies, you must yield on minor matters in order to get fair treatment on the ones that are most important to the company. Yielding is calculated to build goodwill and avoid antagonizing agency staffers. This principle causes executives to go along with what they believe are a number of bad ideas. As one businessman who spends much of his time negotiating with the Environmental Protection Agency says: "You bite your lip a lot, and it gets pretty swollen."

■ Do not criticize an agency publicly; if you do, the staffers will get you. One company calls this the Great 8 Syndrome, referring to the presumed power of employees with a Civil Service grade of G.S.-8 toiling in the bowels of the bureaucracy. (Real influence doesn't begin until the grade of G.S.-13 or higher, but Great 8 rhymes.)

■ It is perfectly acceptable to challenge an agency in court, but don't hold a press conference about it. Many regulators are lawyers and regard lawsuits by companies as gentlemanly acts. Because they are comparatively private, suits are also less likely to generate adverse publicity about an agency than accusations in the press or at a Senate hearing. Douglas B. M. Ehlke, a lawyer in the State of Washington who specializes in Occupational Safety and Health Administration litigation, frequently has to promise his clients that he will not tell the press about their cases, even after they are completed.

A recent exception to this rule was Sears, Roebuck's gutsy challenge to the confused enforcement of the anti-discrimination laws, complete with press conferences and the repudiation of \$20 million a year in government business. But Sears later appeared to cave in to pressure on another front, cutting its catalogue prices at President Carter's request.

Underlying business's approach to dealing with government is a pervasive fear of Washington that reminds one of a timid child's trepidation at confronting the neighborhood bully. Businessmen seem to think they have to play up to the bully so that he will leave them alone or, better still, take their side in some future fights. Fear is all too obvious in the explanation one chief executive gave *FORTUNE* for complying with the guidelines: "We know what it is costing us to comply, but we don't know what the cost might be if we refused." The unknowable "cost" he has in mind involves

Washington's power to punish a company by intensifying regulatory enforcement, denying it privileges that only the government can bestow, or exposing it to the embarrassment of a public tongue-lashing. The questions businessmen should be asking themselves are whether these fears are justified and, if so, whether appeasement will work.

The bureaucrat as pug

The objective evidence suggests that fears of retribution against companies that forcefully oppose regulators and powerful politicians are wildly overblown. To be sure, fear is a perfectly natural reaction to the numbing increase in regulation over the last fifteen years—thirty major regulatory laws and seven new agencies in the first half of the 1970's alone. The new forms of regulation are particularly intrusive because they are *prescriptive* rather than *proscriptive*, and give administrators a remarkable measure of discretionary power, ranging from the approval of "affirmative action" plans to specific design requirements for ladders, tricycles, and matchbooks.

Given that power, there are grounds for suspecting that any Administration may try to use the agencies to carry out political vendettas. John F. Kennedy effectively mobilized the FBI and the IRS to demonstrate the realities of relative power to price-boosting steel executives. And the Nixon Administration used agencies in much the same way loan sharks employ ex-heavyweights to collect delinquent debts.

In 1971, for instance, Lyle C. Roll, the chairman of Kellogg, was asked for a company contribution to Nixon's reelection campaign. The fund raiser made it clear that the then two-year-old FTC investigation of the breakfast-cereal industry could end in a complaint to dismember the companies if Kellogg didn't cough up. In rather indelicate language, Roll refused. The antitrust action has been under way for seven years now. There is no evidence that the White House had a part in the FTC's decision to file a complaint, but it doesn't really matter; the circumstance alone is sufficient to give an executive pause.

Fortunately, incidents of such flagrant abuse appear to be rare, and there is no evidence that the Carter Administration has stooped to those tactics. Instead, Carter has "enforced" the "voluntary" guidelines with threats to withhold government contracts from noncompliers and to label them official sinners. But the legality of blacklisting uncooperative companies from government contracts is so questionable, and the threat to expose them publicly is so mild, that it is difficult to understand why busi-

nessmen feel so vulnerable. After all, a company wins customers mainly on the basis of quality and price, not its corporate conduct in Washington.

No quo without quid

The only significant threats employed by this Administration have involved economic favors that industries get from government—and that government therefore has the power to take away. The Administration made it clear to steel companies that there is a quid pro quo between compliance with the guidelines and the level of trigger prices on imported steel. At Carter's request, the Interstate Commerce Commission said it would not "automatically" allow truckers to pass along cost increases (e.g., a union contract in excess of the guidelines). Using trade policy and rate regulation to strong-arm corporations may seem reprehensible, but it is hard to feel much pity for the companies involved. They made themselves supplicants to the government in the first place by seeking special privileges. It is only natural that the dispenser of privilege will occasionally ask something in return.

Corporations also fear that the regulatory agencies will hound them without any prodding from their political masters. The anxiety is built on the abundant instances of harassment and intimidation by over-zealous regulators. But it is unlikely that the pliant posture business has adopted toward regulators and politicians will make run-ins with the agencies any less likely. The selection of companies to receive harsh treatment appears to be largely a matter of chance. In a month of searching, *FORTUNE* found only one case in which an agency appeared to have been striking back at a corporation for giving it a hard time. (Following accepted practice, the company asked not to be identified.) Given the nearly infinite permutations of agency-company contacts, the fact that only one case turned up suggests that the practice is so rare as to be inconsequential.

The more important point is that the Great 8's (or 13's) do not need any special incitement to turn against business. The regulation created over the last fifteen years has largely been of the social, rather than economic, variety (e.g., health, safety, and pollution control). People attracted to careers in the agencies administering those laws tend to see corporations as exploiters of hapless workers and despoilers of the environment. As a result, dealing with the bureaucrats has by nature become an adversary procedure, and no amount of pussyfooting around is likely to win the regulators' affections.

A game called "gotcha"

A physician in the Food and Drug Administration provided a remarkably candid view of the regulators' philosophy in testifying in 1976 before a special FDA review panel. He was explaining why the agency should not tell companies what information they must provide in order to get a new drug approved. "That's gamesmanship, the game of schlemiel," he said. "It's not up to us to tell them all the details of what should be done... The No. 1 game of the agency should be 'gotcha.' You tried to slip one past, and I knew where to look for your trick. I called my shots and went and there it was—GOTCHA." The panel, by the way, was looking into charges by staff members that the drug industry had the FDA in its pocket.

Corporations obviously need political allies to influence the standards set for such things as auto and truck gasoline mileage, and to make their voices heard on legislation before Congress. But many businessmen naively believe they can build up a sort of political credit bank. This theory holds that a company can accumulate goodwill at the White House or in Congress and then draw on it when necessary. More often than not, a company finds that no matter how many deposits it has made, the account is empty.

Explaining is no fun

The credit-bank theory and the notion that you have to "buy the whole package" to win Congressmen to your side are convenient fictions that make life easier for corporate lobbyists in Washington. After all, explaining to a Congressman why your company keeps taking sides against him on specific issues isn't a particularly pleasant pastime. Not incidentally, the presumed difficulty in cultivating political friendships also inflates the lobbyists' importance. But, in fact, champions often require little cultivation. Representative John Dingell and Senator Donald Riegle Jr., both of Michigan, for example, are likely to support auto interests regardless of what the companies say or do about other issues; there simply are too many auto workers (read: voters) in Michigan for them to do anything other than defend the industry.

Business's accommodating posture is indicative of what might be called the salesman's approach to politics. Business leaders assume that they have to be cordial to the point of coziness in order to sell their view of issues to politicians, and that pointed criticism is counterproductive. But politics and business are different worlds and require different tactics. Corporations win in politics not by currying favor, but by mobilizing a constituency. A year ago, for example,

Department of Transportation to ease its proposed 1980 fleet-mileage standard for light trucks. The pressure didn't come from Congressmen who were repaying a debt to the automakers or taking the side of companies that had fashioned the proper image. Congress and the Department of Transportation were reacting to protests from the United Auto Workers, the National Association for the Advancement of Colored People, and Mayor Coleman Young of Detroit—all of whom feared Chrysler would close a Detroit plant if the original proposal were adopted.

The pitfalls of pandering

Behind corporate timidity lies a pragmatic strategy calculated to minimize the bottom-line impact of the claims made on business. Such pragmatism is woefully misguided. Not only does it yield few, if any, short-run benefits, it also—and this is the critical point—intensifies long-run threats to the free-enterprise system. By pandering to government officials, business makes concessions that erode its rights and prerogatives, and takes positions that ultimately strengthen its adversaries' arguments.

For example, though most chief executives would deny the proposition, acceding to the guidelines amounts to a tacit admission that business and labor—not government—cause inflation. By allowing themselves to be cast as whipping boys, corporations draw attention away from the fiscal and monetary profligacy that is the true cause of inflation, reducing the pressure on Congress and the Administration to behave responsibly. When the guidelines inevitably fail, business will be hard pressed to make a persuasive argument against mandatory price controls, with all their ill effects not only on business but on the efficient allocation of resources.

If business is to halt the erosion of its rights—and possibly recapture some that it has lost—it needs to switch to a strategy founded not on pragmatism but on principle. There is a set of principles that fully legitimizes the role of business in society, but that business leaders often pay no more than lip service to—and often violate themselves.

Much maligned though it may be, the free-market economy serves the best material interests of society. Like preachers, journalists, machinists, and rock stars, businessmen are greedy individuals trying to maximize their own welfare. The discipline of the marketplace forces them to use their labor and capital in the ways that society values most highly. The market's allocation of resources results in greater wealth and a higher standard of living than

arrangement.

But the case for the free market is not of itself a sufficient political argument. Business's opponents have been winning the battle by basing their appeals on what they call social justice. They contend that competition is inherently unfair because not everyone is equally equipped to compete, and they favor a more egalitarian society in which everybody is cushioned against risk. For business to prevail, it too must appeal to a higher value. Fortunately, businessmen are in a position to argue that the greatest good accrues to the greatest number under a system that grants individuals the maximum amount of personal liberty consistent with an orderly society.

Risk is a right

This implies in turn some strict limits on the powers and prerogatives of government. It makes sense, for instance, to regulate prescription drugs, because laymen generally aren't competent to assess the benefits and risks. Children and others unable to fend for themselves need to be protected from exploitation. And government intervention is essential when private activities create intolerable "third-party effects," such as paper mills fouling rivers and streams that no one really "owns."

In many other areas, however, government interference with individual choice has gone too far and is unwarranted. The cyclamate ban is a case in point. While it is reasonable for the government to identify and publicize substances that may cause cancer, and to require disclosure of their use in foods and beverages, individuals should have the right to assume risks if they so desire. As things stand now, individuals retain that right only when their voting power is strong enough to demand it, as in the case of saccharin and cigarettes. One marvels at the logic of a system that bans cyclamates while allowing an obviously more hazardous substance, tobacco, to be freely sold.

The tension between freedom and regulation is most evident when some of the recent legislation is viewed in the context of small businesses. In the area of workers' health and safety, for instance, the government now forbids, say, a boatyard and a carpenter from entering into mutually agreeable arrangements about working conditions. The government has usurped the right of the carpenter to work in a noisy shop, even if he believes the yard owner is paying him enough to put up with all of the clamor.

When business helps Nader

The loss of freedom is obscured some-

ers negotiating with large corporations, but the issue is still there. To be sure, individuals may be at a disadvantage in negotiations with corporate giants, but in competitive labor markets corporations have an incentive to provide good enough pay and conditions of employment to hold their workers. And there is no reason to suppose that the United Steelworkers or the United Auto Workers lack the sophistication and muscle to protect their memberships' interests.

To be convincing, a strategy based on principle requires a consistency that is sorely lacking in business's actions and advocacy now. Too often, business's political positions are opportunistic and unprincipled, and even subversive of the free market. Few traits are as repugnant as hypocrisy, and it seems likely that the incessant pleas for subsidies and protection from competition—bankers' opposition to removing ceilings on interest paid to depositors and import quotas on color televisions are but two of many—have done as much as all the Naderite diatribes to undermine the credibility of "free" enterprise.

What, for example, is the public to make of the stand that Heath Larry, the president of the National Association of Manufacturers, has taken on price controls? He has been arguing that prices and profits should not be restricted, but that it may be proper to control wages and dividends. It is difficult to imagine a more baldly pro-management position, advocating a form of regulation that would help managers keep their hands on profits and clamp down on wages. If business wants free prices, it will have to advocate freedom for all of them, including the price of labor.

A successful strategy also requires that business aggressively pursue the public interest, even when that means sacrificing its own short-term interests. This entails formulating *positive* policies to deal with problems that the market mechanism cannot handle. Pollution is an obvious problem area where current policy is seriously flawed, and where business has failed to make the case for a superior alternative.

Economists generally agree that a system of taxing companies based on the amount they pollute would work better than the present maze of rules and standards. The government would still determine the desired level of environmental quality. But in reaching that level, companies would be motivated to clean up the cheapest sources of pollution first, achieving any given level of environmental purity at the minimum cost.

Pollution regulators naturally dislike the tax idea because they would have less power and considerably less to do than they have now. Many corporations also prefer the present system, in part because the rigid requirements placed on the construction of new plants sometimes act as a barrier to new competitors. A tax system would remove the barrier and probably favor modern factories at the expense of old ones. It also would introduce a new element of competition—the race to come up with better ways to reduce effluents and therefore taxes and prices. Uncertainty about who would win that race naturally makes managers uncomfortable.

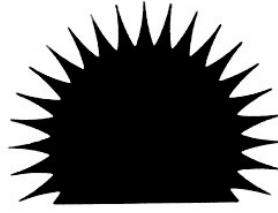
Standing up for greed

At the very least, business ought to re-

fashion its response to attacks and stop allowing its critics to define the issues. When the Administration was hectoring business about "catastrophic" profits recently and George Meany was talking about "profit-push" inflation, the N.A.M., the U.S. Chamber of Commerce, and General Electric all rushed forth with analyses belittling the reported earnings' gains.

That analysis may be correct, but businessmen should never defend the *level* of profits; justifying the level simply fosters their opponents' notion that corporations are taking something away from society and that they have to be closely watched lest they take too much. Instead of denigrating the numbers, businessmen ought to candidly admit that they are out for all they can get—and drive home the point that the workings of the market mechanism prevent them from getting anything more than the value society places on what they contribute.

A lot has been said recently about business's newfound lobbying clout. It is quite true that business has won a remarkable string of victories in Washington over the last couple of years. But so far the victories have all entailed beating back new curbs on corporations. Businessmen will not have truly begun to win in Washington until they get their heads straight about what they stand for, master the art of advancing positive policies, and do a lot better job of explaining themselves. Only then will they be able to roll back the attack on a free society. Unfortunately, business's timidity and opportunism make it difficult to expect that this will happen anytime soon.



"The most frightening aspect of the current gasoline crunch is the almost total absence of serious consideration and open support by businessmen, politicians, and economists for a return to the market system to ration demand and increase supplies. Believing it can't be done, many businessmen and legislators fail to fight for a return to the market system. Instead, they remain silent or concentrate on compromises and accept what Representative Al Ullman calls 'the political equation.'"

Reprint Series

How to achieve an American miracle

By C. Jackson Grayson Jr.

The most frightening aspect of the current gasoline crunch is not the long lines. Nor the price. Nor OPEC. It is not even the shoot-outs at the service stations.

It's the almost total absence of serious consideration and open support by businessmen, politicians, and economists for a return to the market system to ration demand and increase supplies.

The answer to our problems has to be complete decontrol—decontrol not only of oil, but also of gasoline—and elimination of the price and wage "guidelines" program along with it: a complete dismantling of the increasingly complicated, inefficient, inequitable, and unworkable machinery of energy and wage-price controls.

I recommend this not from blind ideological faith in the market system, but from (1) a reading of the history of the failures of wage-price and allocation controls for over 40 centuries, (2) an observation of the current failures of energy and wage-price guidelines, and (3) my own personal experience in directing controls, during Phase II of President Nixon's wage-price program.

C. Jackson Grayson Jr., a former business school dean, is currently chairman of the American Productivity Center in Houston. From 1971 to 1973, he was chairman of the Price Commission.

The gasoline situation is a good example. The President blames Congress and scolds the public. The Congress blames the President and lectures the oil companies. Endless and fruitless disputes, investigations, and hearing drain the nation's energies to find out who's to blame: "Is there a shortage? Where is the gasoline?"

At the gas pumps there are hired guards, shootings, thefts, and scams. Hundreds of thousands of hours are spent nonproductively in long lines when the nation's productivity growth is already alarmingly low. New allocation schemes are cooked up almost daily: odd-even days, numbered windshield stickers, minimum purchase amounts, state conservation quotas, coupons. Such controls organize and prolong shortages. And in the process the poor, those with low incomes, and the weak are hurt the most.

Back to a market economy. A good account of the history of controls is chronicled in a recent book by Robert L. Schuettinger and Eamonn F. Butler, *Forty Centuries of Wage and Price Controls* (The Heritage Foundation, Washington, D. C., 1979). It is tragicomic that 40 centuries of price and wage controls and governmentally directed allocation systems for such commodities as flour,

corn, wheat, and housing show a record of repeated failures.

Not only do the guidelines violate the basic economic laws of supply and demand, they also violate the basic political laws of consensus, power and equity. The program has no power base, no real support by business or organized labor, and it is rife with inequities. The program is not fading fast—it is dead. No scraping, painting over, or review is going to change it from being bad law, bad economics, and bad politics.

"We have to continue," says Barry Bosworth, director of the Council on Wage & Price Stability. "There is no alternative."

Yes there is. I offer these recommendations:

- Remove all price and allocation controls over gasoline and other fuels.
- Remove all wage and price controls.
- Abolish the Council on Wage & Price Stability.
- Return to a market economy.

A "political impossibility," the conventional wisdom runs. It can't be done. Congress, the President, and the public would never stand for it. Believing this, many businessmen and legislators fail to fight for a return to the market system. Instead, they remain silent or concentrate on compromises and accept what Representative Al Ullman calls "the po-

litical equation." That's a mistake, both economically and politically.

Economically, controls are a disaster. As chairman of the Price Commission during Phase II (1971-73), I saw this firsthand. After an initial appearance of gains, the inevitable erosion and inefficiencies began. No matter how good our intentions, how hard we worked, what models we employed, or how ingeniously we designed the regulations, the controls could never handle as efficiently or as effectively the millions of decisions made daily in the marketplace to adjust to the changing conditions of supply and demand. The controls did not reduce shortages or inflation. They increased both.

'Political courage.' Bad economics is also bad politics. A very recent example is Britain. Margaret Thatcher rode to power on pledges to reduce much of the governmental economic management, to decontrol prices and wages, and to revive the market system.

The classic example, of course, is West Germany. In July 1948, virtually all economic controls were removed, including price and wage controls. The Allied powers, then in control, were fearful that it would lead to greater inflation, unemployment, political instability, and more problems for the poor. The bold move was controversial even among those closest to its architect, the economist (later Chancellor) Ludwig Erhard.

The fears proved unfounded. There was higher employment, higher real wages, rising productivity, a disappearance of black markets, an abundance of goods in the shops, and—after an initial spurt in prices—a great reduction in inflation. Apathy and despair turned to hope and energy.

In truth, the "economic miracles" that have followed decontrol were not miracles. They were no more than an end to the economic paralysis and disorder caused by the control mechanisms and a return to the market economy.

President Carter speaks of the need for "political courage" in facing these problems. It's time for an act of political courage that makes both political and economic sense: decontrol.

The Business Community: Resisting Regulation

By Charles Koch

The majority of businessmen today are not supporters of free enterprise capitalism. Instead they prefer "political capitalism," a system in which government guarantees business profits while business itself faces both less competition and more security for itself. As California Governor Jerry Brown puts it, "Sometimes businessmen almost operate as though they'd feel more comfortable in a Marxist state where they could just deal with a few commissars who would tell them what the production goals were, what quota they had. . . . I am really concerned that many businessmen are growing weary of the rigors of the free market." *New York Times* columnist William Safire agrees with this sobering analysis: "The secret desire of so many top-level managers for controls and regulated monopoly is never openly stated. But today's managerial trend is not toward accepting risk. It is toward getting government help to avoid risk."

Even Henry Ford II has pointed out that "it's not just liberal do-gooders, Democrats, unions, consumerists and environmentalists who are responsible for the growth of government. It's also conservative politicians who favor in-

creased defense programs, especially if the money is spent in their own districts. It's bankers and transporters and retailers and manufacturers who want protection from competitors. It's insurance companies that lobby for bumper and air bag regulations that might lower their claims costs. It's even, if you'll forgive me, car dealers who want state government to protect them from the factory or from new dealers in their territory."

But that is only the tip of the iceberg. It was support from a large portion of the business community, including the Chamber of Commerce and the National Association of Manufacturers, which enabled Nixon to impose wage and price controls in 1971. Much earlier, bankers succeeded in pushing through legal prohibitions on the payment of interest on demand deposits. Moreover, the steel industry has just caused the government to set minimum prices on imported steel.

Businesses often fight bitterly against deregulation, as well as urging new controls. Despite support by both liberals and conservatives in Congress, deregulation of the airline industry was blocked for some time by heavy pressure from the airlines themselves. Deregulation of the trucking industry has buckled under pressure from the American Trucking Association.

Over the past five years our company has participated in dozens of hearings on regulatory matters before the Federal Energy Administration and the Department of Energy. At virtually all of these hearings, a number of oil companies have come down on the side of state regulation. Secretary of Energy James Schlesinger summed it up: "The oil industry loves regulation and has been in love with it for many years." Precisely so.

Businessmen have always been anxious to convince a gullible public and an opportunistic Congress that the free market cannot work efficiently in *their* industry, that *some* governmental planning and regulations would be in the "public interest." Indeed, much of the government regulation which plagues us today has come only after businesses have begged and lobbied for it. Nearly every major piece of interventionist legislation since 1887 has been supported by important segments of the business community.

This old business strategy of accommodation with government paid off in the past to some extent, perhaps, but today it falls on its face. Business now suffers as much as the rest of society from the adverse consequences of its own interventionism—the exhaustion of the "reserve fund" predicted by the great economist Ludwig von Mises.

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... different.

Passed at the behest of business, regulations boomerang. A refiner may procure price controls on his purchased crude oil, yet later he experiences shortages and even may find price controls slapped on his own gasoline to capture his politically derived "excess" profits. Oil pipeline companies invite the DOE in to study regional pipeline needs, hoping that their particular project will be favored. But in the future, Washington may well make *all* pipeline decisions, and even build all pipelines.

Businessmen should realize that the more regulated an industry becomes, the less it can cope with changing conditions in the world. It is no coincidence that the four *lowest* ranking industries in return on capital today (airlines, railroads, natural gas utilities, and electric utilities) are also the most highly regulated.

The final stage of political capitalism is even worse. Richard Ferris, president of United Airlines (an exception in his industry) predicts, "Continued governmental control will mean airline service as you know it today will be seriously jeopardized. And, as service and equipment deteriorate, you will stand by helplessly as the threat of nationalization becomes reality." In the electric utility industry, a number of states have already organized agencies to take over from private utilities unable to finance needed additional generating capacity.

Even business's dwindling successes in achieving precisely the regulatory scheme desired by them do not guarantee future control. Just the opposite often occurs. Politically derived benefits for business cause hardships for other special interest groups, who apply pressure on the regulators to turn the regulatory weapon around.

Thus, the business community is growing more and more aware of the shortcomings of this strategy as more and more firms directly suffer the after-effects of their own pathetic schemes. Moreover, examples of the ultimate consequences of interventionism, especially the plight of the railroad industry in the United States and major industries in Great Britain, are awakening businessmen to their own probable fate.

Businessmen are also becoming justifiably concerned with the rapidly growing antibusiness sentiment in this country. Recent public opinion polls show that a large portion of intellectuals and the general public believe that business—especially big business—has undue political power, which it uses to stifle and smash competition and to control prices.

The Liberation of Business

But business *can* free itself from this predicament, if only it *will*. As the *Wall*

Street Journal recently noted, "Despite the blows they have suffered in the political arena [businessmen] still have the capacity to be highly influential in the political sphere. But they will not bring about such a reversal unless they are able to put aside short-term concepts in favor of those longer-term considerations. . . . We may be reaching the point where American businessmen will have to decide whether they *really* believe in the market system. If they don't, it is hard to see who will muster the political forces to defend it against its very real and often intensely committed enemies." In spite of business's sullied record in defending free enterprise, there are large numbers of businessmen who want nothing more from government than to be left alone. And these numbers are growing quickly today.

To survive, business must develop a new strategy. The great free-market and Nobel Laureate economist F. A. Hayek has prepared a guide for us:

Almost everywhere the groups which pretend to oppose socialism at the same time support policies which, if the principles on which they are based were generalized, would no less lead to socialism than the avowedly socialist policies. There is some justification at least in the taunt that many of the pretending defenders of "free enterprise" are in fact defenders of privileges and advocates of government activity in their favor, rather than opponents of all privilege. In principle the industrial protectionism and government-supported cartels and the agricultural policies of the conservative groups are not different from the proposals for a more far-reaching direction of economic life sponsored by the socialists. It is an illusion when the more conservative interventionists believe that they will be able to confine these government controls to the particular kinds of which they approve. In a democratic society, at any rate, once the principle is admitted that the government undertakes responsibility for the status and position of particular groups, it is inevitable that this control will be extended to satisfy the aspirations and prejudices of the great masses. There is no hope of a return to a freer system until the leaders of the movement against state control are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept. The hopelessness of the prospect for the near future indeed is due mainly to the fact that no organized political group anywhere is in favor of a truly free system.

Before businessmen can serve as ef-

fective defenders of individual liberty and the free enterprise system, it is first necessary for them to learn precisely what free enterprise *is* and what it *is not*. We must do our homework; we must comprehend "the philosophic foundations of a free society." Only then will we have the necessary resolve to carry out the difficult task ahead.

Armed with understanding, businessmen can confidently proceed with the new strategy, which is composed of three parts: business/government relations, education, and political action.

1. Business/Government Relations—

The first requirement is to practice what we preach. People see our inconsistencies and—quite justifiably—simply don't believe businessmen anymore. How discrediting it is for us to request welfare for ourselves while attacking welfare for the poor. Our critics rightfully claim that we want socialism only for the rich.

Our credibility cannot be regained if we continue to file, hat in hand, to Washington while mouthing empty, insincere platitudes about free enterprise. We cannot continue to have it both ways. Government will not keep granting us favors on the one hand, while allowing us to run our own businesses as we see fit, on the other. *We must stop defending interventions and demanding new ones.* This might well diminish the impetus for new regulations and win new allies for us among intellectuals, legislators, and the general public.

Then we should advocate the repeal of existing regulations in our industries, as well.

Never ask for tighter regulation of a competitor even if he has the advantage of being less regulated than you are. This starts the suicidal cycle which ends in the destruction of both. Instead we should concentrate on loosening our own regulations. We should defend our own right to be free of unjust regulations, and not try to shackle competitors. Strategically, the critical point is to fight to eliminate, rather than continue, all interventions, even those that provide short-term profits. Only by rigidly adhering to this policy can we begin the step-by-step process of freeing ourselves.

Taxes are particularly troublesome, especially since many free market businessmen believe that tax exemptions are equivalent to subsidies. Yet morally and strategically, tax exemptions are the *opposite* of subsidies. Morally, lowering taxes is simply *defending* property rights; seeking a subsidy is asking the government to *steal* someone else's property for your benefit. Strategically, lowering taxes *reduces* government; subsidies *increase* government. Nor is it valid to say that reducing your taxes simply shifts

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your "fair share" of the tax burden to someone else. There is no "fair" share. Our goal is not to *reallocate* the burden of government; our goal is to *roll back* government. We should consistently work to reduce *all* taxes, our own and those of others.

Finally, we should *not* cave in the moment a regulator sets foot on our doorstep. Put into practice Henry Manne's recommendation that "the business community utilize available techniques of legal adversary proceedings to announce publicly and vigorously, both as individual companies and through associations, that they will not cooperate with the government beyond the legally compelled minimum in developing or complying with any control programs." As he urges, "publicize as widely as possible the inevitable inefficiencies, mistakes, and human miseries that will develop with these controls . . . help the public understand that morality, in the case of arrogant, in the case of arrogant, intrusive, totalitarian laws, lies in the barest possible obedience and in refusal to cooperate willingly beyond the letter of the law." Do not cooperate voluntarily; instead, resist wherever and to whatever extent you legally can. And do so in the name of *justice*.

2. Education—Business's educational strategy has been guided more by concern with short-term "respectability" and acceptance by the establishment than with long-term survival.

We have voluntarily supported universities and foundations who are philosophically dedicated to the destruction of our businesses and of what remains of the free market. *This must stop*. We must stop financing our own destruction. Period.

Even when business has supported "free enterprise" education, it has been ineffectual because businessmen have had little understanding of the underlying philosophy or of a meaningful strategy. Businessmen have spent their money on disasters such as buying a "free enterprise" chair at their alma mater and watching in dismay as the holder teaches everything but free enterprise.

Also largely wasted has been the money contributed to those private colleges who make free enterprise noises, but have failed to produce competent graduates dedicated to establishing the free enterprise system. There are too many of these.

The development of *talent* is, or should be, the major point of all these efforts. By talent, I mean those rare, exceptionally capable scholars or communicators willing to dedicate their lives to the cause of individual liberty. To be effective, this talent must have the knowl-

edge, skill, and sophistication to meet statist adversaries and their arguments head on, and to defeat them. They must have the desire and commitment to unceasingly advance the cause of liberty. Statists have succeeded while we floundered because they've had *their* talent, their cadre, to develop and sell *their* programs. During the 15 years I have been actively investing my time and money in reestablishing our free society, our biggest problem has been the shortage of talent. When conscientious, dedicated scholars or communicators worked on a project, we were effective; when they weren't available, we failed.

Thus, business must concentrate its support on those few institutes and university departments that have effective programs for producing a free-market cadre.

Our own direct defense of business, particularly our media advertising, has been either bungling and pitifully ineffectual, or else downright destructive. We have substituted intellectual bromides for a principled exposition of a point of view. We have taken a conciliatory attitude. Our ads have apologized for profits.

We have accepted the fallacious concept that the corporation has a broad "social responsibility" beyond its duty to its shareholders. We have been made to feel *ashamed* of private ownership and profits, and have been hoodwinked into characterizing government regulation as "virtuous" and in the "public interest." As a typical example, the Advertising Council, backed by most of the major U. S. corporations, goes so far as to describe regulation as, "the promotion of fair economic competition and the protection of public health and safety." What simple-minded nonsense!

Instead of this bankrupt approach, we need to go on the offensive. We need to cast aside our desire to be popular with our colleagues and the establishment intellectuals, to cast aside our fears of reprisals by government. We need to advertise that the market system is not only the most efficient, it is also the *only* moral system in history. We need to attack government regulation for wreaking havoc on those it is allegedly designed to help—those least able to fend for themselves. We need to stigmatize interventionism as being intrinsically *unjust* because it deprives individuals of their natural right to use their lives and property as they see fit. We need to defend the right of "capitalist acts between consenting adults," in the words of Robert Nozick.

A recent demonstration of the need for arguments beyond the standard one of efficiency is the recent Supreme Court decision upholding a Maryland

law (passed at the bidding of a service station dealers' association) barring oil producers and refiners from operating service stations. The Court found that, "regardless of the ultimate economic efficacy of the statute, we have no hesitancy in concluding that it bears a reasonable relation to the state's legitimate purpose in controlling the gasoline retail market. . . ." The determinative defense of business will rest not in arguments from efficiency, but in arguments from *justice*. To claim that the *state* has the right to "control the gasoline retail market" is totalitarian nonsense.

We must demand the same principled behavior of our organizations as we do of ourselves and our companies. When, for example, the Committee for Economic Development advocates "that public-private partnerships must be an essential part of any national urban strategy," business should *withdraw its support*. It should do the same if the Chamber of Commerce continues to promote government intervention under the philosophy espoused by a former president: "It's not possible or desirable to remove *all* the regulations." New business organizations should be set up which refrain from asking for state protection and subsidies, and which, going further, criticize, expose and lobby against instances of political capitalism, of "the partnership between business and government." Only such organizations can help business regain the respect of the American people. In fact, a group of us is launching just such an organization, *The Council for a Competitive Economy*.

Such an organization will help businessmen avoid blunders similar to the Wichita Chamber of Commerce when it heavily promoted a one-billion-dollar coal gasification plant, which would have been partially owned by Wichita and subsidized by Washington. The people of Wichita rejected Chamber propaganda that the plant would not cost *them* anything and voted it down. Again, such an organization will help prevent blunders such as the business community in California opposing Proposition 13. These blunders create an image of business in cahoots with government to tax and exploit the people. Milton Friedman describes this as business following "its unerring instinct for self-destruction."

Business should also stop shackling the free-market position with antilibertarian stands such as hostility to civil liberties and an interventionist foreign policy. What a spectacle it is for the same people who preach freedom in voluntary economic activities to call for the full force of the law against voluntary sexual or other personal activities! What else can the public conclude but that

the free-market rhetoric is a sham — that business only cares about freedom for itself, and doesn't give a *damn* about freedom for the individual?

The public reacts at least as negatively to business calls for still further foreign adventurism. What other feelings can we expect from people taxed and conscripted to save our foreign investments or to enlarge our foreign profits? We should take *our own* risks abroad, and not expect them to be borne by the American people.

Businessmen have been the first to support any sort of foreign adventurism, if only it is sold under the rubric of "national security." If business really wants a free market/private property system it must resist government's foreign interventions as well as its domestic interventions. Businessmen must realize that the *single* greatest force behind the growth of government is foreign adventurism and its daughter — war. America cannot both be policeman to the world and have a free domestic economy; they are mutually exclusive. Our classical liberal forebears in England who struggled for free trade and *laissez-faire* realized this — the peace movement

and the free trade movement are one and the same.

3. Political Action — Businessmen should be involved in politics and political action — from local tax revolts to campaigns for Congress and the presidency. But we should apply the same standards of understanding and principled behavior as in the other parts of our strategy. We must discard our lesser-of-evils approach to politics. This has brought only the continued growth of government.

Our movement should have as its goal the fulfillment of the ideal of the free and independent entrepreneur. To accomplish this, our movement must destroy the prevalent statist paradigm and erect, in its stead, a new paradigm of liberty for *all* people. Our movement must avoid the faulty strategy of conservatives, whose acceptance of statist premises has caused their proposals to be simply moderate versions of the original statist schemes. Our movement must struggle for the realization of the principle of the free market rather than settle for immediately obtainable re-

forms. For, as Aileen Kraditor writes, "To criticize the (radical) agitator for not trimming his demands to the immediately realizable — that is, for not acting as a politician — is to miss the point . . . the more extreme demand of the agitator makes the politician's demand seem acceptable and perhaps desirable in the sense that the adversary may prefer to give up half a loaf rather than the whole. Also, the agitator helps define the value, the principle, for which the politician bargains. The ethical values placed on various possible political courses are put there partly by agitators working on the public opinion that creates political possibilities."

Business *can* survive, but it *cannot* survive without the help of businessmen. By fighting against interventions, however profitable, by advocating a principled, philosophical defense of the free enterprise system, and by working for freedom for everyone, businessmen can, with pride, be a vital force in restoring our free society. To date, businessmen have not seen fit to do so. Whether businessmen do so in the future may determine whether business, indeed, has a future. Or deserves to.



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