

WHATEVER HAPPENED TO FREE ENTERPRISE?

by Ronald Reagan

Most recently known for his bid for the 1976 Republican presidential nomination, Ronald Reagan is distinguished for his successful careers in motion pictures, broadcasting, and politics.

Mr. Reagan was a player and production supervisor of television's "General Electric Theater" for eight years and hosted and acted in the "Death Valley Days" television series. For many years he owned and operated a horse breeding and cattle ranch.

Elected California's 33rd governor in 1966, he was re-elected in 1970. After leaving office in early 1975, Governor Reagan began a daily radio commentary program, nationally syndicated, and a weekly newspaper column in which he is still involved. Governor Reagan delivered this address on the Hillsdale campus in the Ludwig von Mises Lectures Series.

During the presidential campaign last year, there was a great deal of talk about the seeming inability of our economic system to solve the problems of unemployment and inflation. Issues such as taxes and government power and costs were discussed, but always these things were discussed in the context of what *government* intended to do about it. May I suggest for your consideration that government has already done too much about it? That indeed, government, by going outside its proper province, has caused many if not most of the problems that vex us.

How much are we to blame for what has happened? Beginning with the traumatic experience of the Great Depression, we the people have turned more and more to government for answers that government has neither the right nor the capacity to provide. Unfortunately, government as an institution always tends to increase in size and power, and so government attempted to provide the answers.

The result is a fourth branch of government added to the traditional three of executive, legislative and judicial: a vast federal bureaucracy that's now being imitated in too many states and too many cities, a bureaucracy of enormous power which determines policy to a greater extent than any of us

realize, very possibly to a greater extent than our own elected representatives. And it can't be removed from office by our votes.

To give you an illustration of how bureaucracy works in another country, England in 1803 created a new civil service position. It called for a man to stand on the cliffs of Dover with a spy glass and ring a bell if he saw Napoleon coming. They didn't eliminate that job until 1945. In our own country, there are only two government programs that have been abolished. The government stopped making rum on the Virgin Islands, and we've stopped breeding horses for the cavalry.

We bear a greater tax burden to support that permanent bureaucratic structure than any of us would have believed possible just a few decades ago. When I was in college, governments federal, state and local, were taking a dime out of every dollar earned and less than a third of that paid for the federal establishment. Today, governments, federal, state, and local, are taking 44 cents out of every dollar earned, and two-thirds of that supports Washington. It is the fastest growing item in the average family budget, and yet it is not one of the factors used in

computing the cost of living index. It is the biggest single cost item in the family budget, bigger than food, shelter and clothing all put together.

When government tells us that in the last year the people in America have increased their earnings 9 percent, and since the inflation is 6 percent, we're still 3 percentage points better off, or richer than we were the year before, government is being deceitful. That was *before* taxes. After taxes, the people of America are 3 percentage points worse off, poorer than they were before they got the 9 percent raise. Government profits by inflation.

At the economic conference in London several months ago, one of our American representatives there was talking to the press. He said you have to recognize that inflation doesn't have any single cause and therefore has no single answer. Well, if he believed that, he had no business being at an economic conference. Inflation is caused by one thing, and it has one answer. It's caused by government spending more than government takes in, and it will go away when government stops doing that, and not before.

Government has been trying to make all of us believe that somehow inflation is like a plague, or the drought, or the locusts coming, trying to make us believe that no one has any control over it and we just have to bear it when it comes along and hope it will go away. No, it's simpler than that. From 1933 until the present, our country has doubled the amount of goods and services that are available for purchase. In that same period we have multiplied the money supply by 23 times. So \$11.50 is chasing what one dollar used to chase. And that's all that inflation is: a depreciation of the value of money.

Ludwig von Mises once said, "Government is the only agency that can take a perfectly useful commodity like paper, smear it with some ink, and render it absolutely useless."

There are 73 million of us working and earning by means of private enterprise to support ourselves and our dependents. We support, in addition, 81 million other Americans totally dependent on tax dollars for their year-round living. Now it's true that 15 million of those are public employees and they also pay taxes, but their taxes are simply a return to government of dollars that first had to be taken from the 73 million. I say this to emphasize that the people working and earning in private business and industry are the only resource that government has.

In Defense of Free Enterprise

More than anything else, a new political economic mythology, widely believed by too many people, has increased government's ability to interfere as it

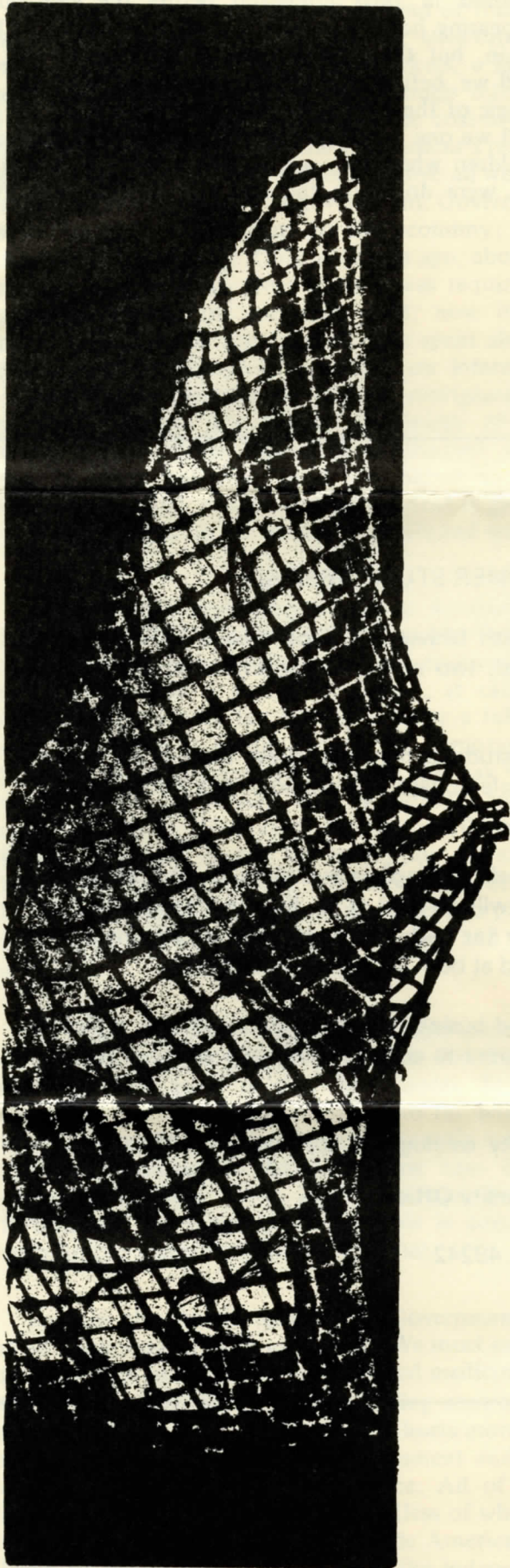
does in the marketplace. Profit is a dirty word, blamed for most of our social ills. In the interest of something called consumerism, free enterprise is becoming far less free. Property rights are being reduced, and even eliminated, in the name of environmental protection. It is time that a voice be raised on behalf of the 73 million independent wage earners in this country, pointing out that profit, property rights and freedom are inseparable, and you cannot have the third unless you continue to be entitled to the first two.

Even many of us who believe in free enterprise have fallen into the habit of saying when something goes wrong: "There ought to be a law." Sometimes I think there ought to be a law against saying: "There ought to be a law." The German statesman Bismark said, "If you like sausages and laws you should never watch either one of them being made." It is difficult to understand the ever-increasing number of intellectuals in the groves of academe, present company excepted, who contend that our system could be improved by the adoption of some of the features of socialism.

In any comparison between the free market system and socialism, nowhere is the miracle of capitalism more evident than in the production and distribution of food. We eat better, for a lower percentage of earnings, than any other people on earth. We spend about 17 percent of the average family's after-tax income for food. The American farmer is producing two and one-half times as much as he did 60 years ago with one-third of the man-hours on one-half of the land. If his counterparts worldwide could reach his level of skill we could feed the entire world population on one-tenth of the land that is now being farmed worldwide.

The biggest example comes, I think, when you compare the two superpowers. I'm sure that most of you are aware that some years ago the Soviet Union had such a morale problem with the workers on the collective farms that they finally gave each worker a little plot of ground and told him he could farm it for himself and sell in the open market what he raised. Today, less than 4 percent of Russia's agricultural land is privately farmed in that way, and on that 4 percent is raised 40 percent of all of Russia's vegetables, and 60 percent of all its meat.

Some of our scholars did some research on comparative food prices. They had to take the prices in the Russian stores and our own stores and translate them into minutes and hours of labor at the average income of each country. With one exception they found that the Russians have to work two to ten times as long to buy the various food items than do their counterparts here in America. The one ex-



ception was potatoes. There the price on their potato bins equalled less work time for them than it did for us. There was one hitch though – they didn't have any potatoes.

In spite of all the evidence that points to the free market as the most efficient system, we continue down a road that is bearing out the prophecy of De Tocqueville, a Frenchman who came here 130 years ago. He was attracted by the miracle that was America. Think of it: our country was only 70 years old and already we had achieved such a miraculous living standard, such productivity and prosperity, that the rest of the world was amazed. So he came here and he looked at everything he could see in our country trying to find the secret of our success, and then went back and wrote a book about it. Even then, 130 years ago, he saw signs prompting him to warn us that if we weren't constantly on guard, we would find ourselves covered by a network of regulations controlling every activity. He said if that came to pass we would one day find ourselves a nation of timid animals with government the shepherd.

Was De Tocqueville right? Well, today we are covered by tens of thousands of regulations to which we add about 25,000 new ones each year.

The Cost of Government Regulation

A study of 700 of the largest corporations has found that if we could eliminate unnecessary regulation of business and industry, we would instantly reduce the inflation rate by half. Other economists have found that over-regulation of business and industry amounts to a hidden five-cent sales tax for every consumer. The misdirection of capital investment costs us a quarter of a million jobs. That's half as many as the president wants to create by spending \$32 billion over the next two years. And with all of this comes the burden of government-required paperwork.

It affects education – all of you here are aware of the problems of financing education, particularly at the private educational institutions. I had the president of a university tell me the other day that government-required paperwork on his campus alone has raised the administrative costs from \$65,000 to \$600,000. That would underwrite a pretty good faculty chair. Now the president of the Eli Lilly drug company says his firm spends more man-hours on government-required paperwork than they do today on heart and cancer research combined. He told of submitting one ton of paper, 120,000 pages of scientific data most of which he said were absolutely worthless for FDA's purposes, in triplicate, in order to get a license to market an arthritis medicine. So, the United States is no longer first in

the development of new health-giving drugs and medicines. We're producing 60 percent fewer than we were 15 years ago.

And it's not just the drug industry which is over-regulated. How about the independent men and women of this country who spend \$50 billion a year sending 10 billion pieces of paper to Washington where it costs \$20 billion each year in tax money to shuffle and store that paper away. We're so used to talking billions — does anyone realize how much a single billion is? A billion minutes ago Christ was walking on this earth. A billion hours ago our ancestors lived in caves, and it is questionable as to whether they'd discovered the use of fire. A billion dollars ago was 19 hours in Washington, D.C. And it will be another billion in the next 19 hours, and every 19 hours until they adopt a new budget at which time it'll be almost a billion and a half.

It all comes down to this basic premise: if you lose your economic freedom, you lose your political freedom and in fact all freedom. Freedom is something that cannot be passed on genetically. It is never more than one generation away from extinction. Every generation has to learn how to protect and defend it. Once freedom is gone, it's gone for a long, long time. Already, too many of us, particularly those in business and industry, have chosen to switch rather than fight.

We should take inventory and see how many things we can do ourselves that we've come to believe only government can do. Let me take one that I'm sure everyone thinks is a government monopoly and properly so. Do you know that in Scottsdale, Ariz., there is no city fire department? There, the per capita cost for fire protection and the per capita fire loss are both one-third of what they are in cities of similar size. And the insurance rates reflect this. Scottsdale employs a private, profit-making, firefighting company, which now has about a dozen clients out in the western states.

Sometimes I worry if the great corporations have abdicated their responsibility to preserve the freedom of the marketplace out of a fear of retaliation or a reluctance to rock the boat. If they have, they are feeding the crocodile hoping he'll eat them last. You can fight city hall, and you don't have to be a giant to do it. In New Mexico there's a little company owned by a husband and wife. The other day two OSHA inspectors arrived at the door. They demanded to come in in order to go on a hunting expedition to see if there were any violations of their safety rules. The wife, who happens to be company president, said "Where's your warrant?" They said, "We don't need one." She said, "You do to come in here," and shut the door. Well, they went out and got a

warrant, and they came back, but this time she had her lawyer with her. He looked at the warrant and said it does not show probable cause. A federal court has since upheld her right to refuse OSHA entrance.

Why don't more of us challenge what Cicero called the arrogance of officialdom? Why don't we set up communications between organizations and trade associations? To rally others to come to the aid of an individual like that, or to an industry or profession when they're threatened by the barons of bureaucracy, who have forgotten that we are their employers. Government by the people works when the people work at it. We can begin by turning the spotlight of truth on the widespread political and economic mythology that I mentioned.

A recent poll of college and university students (they must have skipped this campus) found that the students estimated that business profits in America average 45 percent. That is nine times the average of business profits in this country. It was understandable that the kids made that mistake, because the professors in the same poll guessed that the profits were even higher.

Then there is the fairy tale born of political demagoguery that the tax structure imposes unfairly on the low earner with loopholes designed for the more affluent. The truth is that at \$23,000 of earnings you become one of that exclusive band of 10 percent of the wage-earners in America paying 50 percent of the income tax but only taking 5 percent of all the deductions. The other 95 percent of the deductions are taken by the 90 percent of the wage-earners below \$23,000 who pay the other half of the tax.

The most dangerous myth is that business can be made to pay a larger share of taxes, thus relieving the individual. Politicians preaching this are either deliberately dishonest, or economically illiterate, and either one should scare us. Business doesn't pay taxes, and who better than business could make this message known? Only people pay taxes, and people pay as consumers every tax that is assessed against a business. Passing along their tax costs is the only way businesses can make a profit and stay in operation.

The federal government has used its taxing power to redistribute earnings to achieve a variety of social reforms. Politicians love those indirect business taxes, because it hides the cost of government. During the New Deal days, an under-secretary of the treasury wrote a book in which he said that taxes can serve a higher purpose than just raising revenue. He said they could be an instrument of social and economic control to redistribute the wealth and income and to penalize particular industries and economic groups.

We need to put an end to that kind of thinking. We need a simplification of the tax structure. We need an indexing of the surtax brackets, a halt to government's illicit profiteering through inflation. It's as simple as this: every time the cost-of-living index goes up one percent, the government's revenue goes up one and one-half percent. Above all we need an overall cut in the cost of government. Government spending isn't a stimulant to the economy; it's a drag on the economy. Only a decade ago, about 15 percent of corporate gross income was required to pay the interest on corporate debt; now it's 40 percent. Individuals and families once spent about 8 percent of their disposable income on interest on consumer debt, installment buying, mortgages, and so forth. Today, it's almost one-fourth of their total earnings. State and local government in the last 15 years has gone from \$70 billion to \$220 billion. The total private and public debt is growing four times as fast as the output of goods and services.

Again, there is something we can do. Congressman Jack Kemp (R-N.Y.) has a bill before the Congress designed to increase productivity and to create jobs for people. Over a three-year period, it calls for reducing the income tax for all of us by a full one-third. And also it would reduce the corporate tax from 48 to 45 percent. The base income tax would no longer be 20 percent but 14 percent, and the ceiling would be 50 percent instead of 70 percent. Finally, it would double the exemption for smaller businesses before they get into the surtax bracket. It would do all of the things that we need to provide investment capital, increase productivity, and create jobs.

We can say this with assurance, because it has been done twice before: in the '20's under Harding and Coolidge and again in the '60's under John F. Kennedy. In the '60's the stimulant to the economy was so immediate that even government's revenues increased because of the broadening base of the economy. Kemp's bill is gaining support but unfortunately the majority in Congress is concerned with further restrictions on our freedom.

To win this battle against Big Government, we must communicate with each other. We must support the doctor in his fight against socialized medicine, the oil industry in its fight against crippling controls and repressive taxes, and the farmer, who hurts more than most because of government harrassment and rule-changing in the middle of the game. All of these issues concern each one of us, regardless of what our trade or profession may be. Corporate America must begin to realize that it has allies in the independent

business men and women, the shopkeepers, the craftsmen, the farmers, and the professions. All these men and women are organized in a great variety of ways, but right now we only talk in our own organizations about our own problems. What we need is a liaison between these organizations to realize how much strength we as a people still have if we'll use that strength.

In regard to the oil industry, is there anyone who isn't concerned with the energy problem? Government caused that problem while we all stood by unaware that we were involved. Unnecessary regulations and prices and imposed price limits back in the '50's are the direct cause of today's crisis. Our crisis isn't because of a shortage of fuel; it's a surplus of government. Now we have a new agency of enormous power, with 20,000 employees and a \$10.5 billion budget. That's more than the gross earnings of the top seven oil companies in the United States. The creation of the Department of Energy is nothing more than a first step towards nationalization of the oil industry.

While I believe no one should waste a natural resource, the conservationists act as if we have found all the oil and gas there is to be found in this continent, if not the world. Do you know that 57 years ago our government told us we only had enough for 15 years? Nineteen years went by and they told us we only had enough left for 13 more years, and we've done a lot of driving since then and we'll do a lot more if government will do one simple thing: get out of the way and let the incentives of the marketplace urge the industry out to find the sources of energy this country needs.

We've had enough of sideline kibitzers telling us the system they themselves have disrupted with their social tinkering can be improved or saved if we'll only have more of that tinkering or even government planning and management. They play fast and loose with a system that for 200 years made us the light of the world. The refuge for people all over the world who just yearn to breathe free. It's time we recognized that the system, no matter what our problems are, has never failed us once. Every time we have failed the system, usually by lacking faith in it, usually by saying we have to change and do something else. A Supreme Court Justice has said the time has come, is indeed long overdue, for the wisdom, ingenuity, and resources of American business to be marshalled against those who would destroy it.

What specifically should be done? The first

essential for the businessman is to confront the problem as a primary responsibility of corporate management. It has been said that history is the patter of silken slippers descending the stairs and the thunder of hobnail boots coming up. Back through the years we have seen people fleeing the thunder of those boots to seek refuge in this land. Now too many of them have seen the signs, signs that were

ignored in their homeland before the end came, appearing here. They wonder if they'll have to flee again, but they know there is no place to run to. Will we, before it is too late, use the vitality and the magic of the marketplace to save this way of life, or will we one day face our children, and our children's children when they ask us where we were and what we were doing on the day that freedom was lost?

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