

What is the Meaning of Free Enterprise?

A FEW months ago the Editor of a leading British business journal* addressed an open letter to the President of the Federation of British Industries. In this letter he posed a question: "How many men," he said, "in British industry, however exalted their position, could define what they mean by PRIVATE ENTERPRISE or FREE ENTERPRISE. . . .?" The Editor went on to say: "We believe that the absence of any clear idea about the nature of the private enterprise system among business men is a mortal danger to the system itself."

This letter brought forth a flood of replies from British businessmen—some commendatory, others critical. Some said that no good purpose would be served by trying to describe the meaning and nature of private enterprise in more or less exact terms. But the majority seemed to think that something of value—possibly of substantial value—would emerge. The head of one of the world's leading public relations firms made a strong point: "There are hosts of people," he wrote, "to whom private enterprise has only the vaguest significance."

This is almost certainly true.

WE seem to have reached a stage where a re-definition of free enterprise in modern terms is urgently needed. For one thing political divisions in both Britain and Australia have become rather blurred. Thus we find "free enterprise" governments imposing measures of a strongly socialistic character; while we have socialist parties opposing these measures with ideas which would be applauded by many supporters of private enterprise.

*Scope.

Quite apart from the vague notions possessed by many people about the phrase "free enterprise", there is a real danger that to the supporters of free enterprise itself the phrase might become no more than a meaningless political slogan or catchcry. Are Australian businessmen in a similar case to their counterparts in England? Would the majority find it hard to explain in precise terms what is meant by "private enterprise"? Quite possibly!

For other reasons a clear statement of the meaning of private enterprise would seem to be singularly appropriate just at the moment. It is generally true to say that the great bulk of economic and social legislation of the last two decades—in Australia no less than Britain—has been directed toward the objective of sharing up more equally the community's production of wealth. This tendency was given a special impetus by the war when plans of post-war reconstruction centred mainly on giving effect to the social ideas most clearly and comprehensively expounded by Lord Beveridge. But this movement, because of hard practical reasons, has just about exhausted itself. **Attempts to take the levelling process further are now just not practicable without wholly submerging the driving impulses of risk, enterprise and personal effort and initiative on which a community depends if it is to remain progressive and productive.** If the central economic problem of the last two decades has been to remove the curse of economic insecurity through the policy of "fair shares", the economic problem of the next two decades is likely to be that of greatly expanding the production of wealth. And the special claim to fame of free enterprise is that,

whatever its defects, it can assure a faster rate of material progress than any alternative that has so far been offered us. The classic socialist criticisms of private enterprise, on the whole, have not been on the score of production, but on the score of instability and that private enterprise does not of itself distribute what it produces in an equitable fashion.

WELL, then, what kind of economic system have we in Australia at the moment? Is it, in real substance and in spirit, a system of true free enterprise? Or is it a system of free enterprise only in external appearances? Is the structure one of private enterprise only in broad architectural outline whilst the details of construction are foreign to and inconsistent with the main design? Does the real red blood of personal enterprise flow strongly in this young Continent today, or is it suffering from a kind of pernicious economic anaemia or, perhaps, a premature hardening of the economic arteries? Has our economic organisation become soft? These are questions worth looking into.

How, then, does the present position in Australia conform with our notions of what constitutes a system of true free enterprise? Certainly the great part of the productive assets of the community are still privately owned. Certainly the great part of employment (around 80%) is still provided by private businesses. Are these not the major tests? Do not these facts conclusively prove that Australia is still predominantly a free enterprise country?

At a hasty glance, the building seems sound enough. But if we look a little closer, cracks and flaws begin to appear. We notice, first of all, that the strong incentives which free enterprise is supposed to offer have been considerably watered down by taxation which becomes extremely heavy at a comparatively low

point on the income gradation. It can be said at once that the opportunities for amassing a reasonable store of wealth, still less a fortune, no longer exist except for the slick operator or for those already possessing great capital resources. The aspiring young are no longer allowed their dreams. We may have been successful in achieving one of the main objectives of Lord Keynes, "the euthanasia of the rentier", but we have also gone a long way toward bringing about the "euthanasia of the enterpriser"—something which Lord Keynes would have regarded with horror.

IT is very much to be doubted whether this state of affairs provides a sound basis for developing a young Continent crying out for growth and adventurous enterprise. Recently, an article in one of our metropolitan dailies lamented the fact that there no longer seems to be rising from the ranks of the young, men of such stamp and calibre as Sidney Kidman (on the land), H. V. McKay (in manufacturing) and Sidney Myer (in retail trade), whose work meant so much to Australia in the earlier decades of this century. Perhaps this is hardly surprising. Perhaps we no longer provide the environment in which such men can exist and flourish. Might as well expect the hardy English oak to thrive in the Arctic wastes or the Sahara Desert.

And in addition to the fact that the State takes so great a share of the wealth acquired by the personal effort of the individual, it also takes a major part (on average nearly one-half) of the earnings of the industrial company. If we discount the effects of post-war shortages and of the boom years of abnormal wool prices, it would probably be agreed that it is not easy in these days for the small company or the young company to grow big. For bigness is largely made possible by the re-investment of business profit, the familiar process of "ploughing back" earnings. Moreover, it is much easier

for the older, well-established companies to acquire from the money market capital resources for large-scale expansion than the relatively unknown smaller company. (And even the larger companies are at the moment severely limited in this regard.) Perhaps many a potential Sidney Myer or H. V. McKay is born to blush unseen. Heavy taxation on the scale we are practising not merely removes the incentive to accomplish great things, it removes the means of accomplishment.

Nor is the private enterpriser entirely free to try out his ideas, to experiment, to follow his intuition in the Australia of today. He is told what he must not do. He is not encouraged to do. He lives in an environment of restriction. Since the war he has been hedged about by government controls which reach practically into every nook and cranny of the economy—state control of his prices, state control of the marketing of his product, controls over lending, over the raising of new capital, over his material supplies, controls on imports, on building, controls here, controls there. Some day some enterprising individual, with the time and resources, will make a catalogue of government controls over business in the Australia of today. It will make an interesting story, and one that will astonish and shock.

WHAT other flaws are there in the edifice of business enterprise? There is, for instance, the cost structure. The costs of producing in Australia have become so great that it is virtually impossible for a great part of private industry to compete with overseas industries. Costs have risen so high that they could necessitate the continuance of import restrictions in some form so long as they remain at levels so far out of line with the world position. Also businesses are discouraged from undertaking big capital expansions which can only be carried

through at excessively high costs. Does this cost structure provide an encouraging foundation for business enterprise in this country? Clearly not!

These three alone—the deadening burden of high taxation, the restrictions on business freedom, which, in essence, amount to restrictions on the free execution of business ideas, the high cost structure—provide formidable obstacles to free enterprise. It is, then, at first sight, almost a miracle that there is as much business activity as there is!

Part of the reason is that Australia has just passed through one of the biggest and longest-sustained booms in its history. Not even the wildest optimists could have envisaged the day when the price of wool would exceed 200 pence per lb. In addition, private capital from abroad, encouraged by high wool prices, has been coming into this country for investment at an altogether abnormal rate. Migration and development and the general condition of post-war shortages have all contributed to an economic climate exceptionally favourable to business expansion.

In addition, since the war, the businessman has been assisted over the obstacles in his path by governments concerned at all costs to maintain full employment. In some respects he may have been slightly pampered. The state has not only assumed the responsibility for giving economic security to the man in the street, it is rapidly getting into a position where it is assuming responsibility for trying to provide security for the businessman. If the environment for business enterprise in Australia has not been exactly invigorating, at least it has not been altogether uncomfortable.

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WHATEVER the economic system we have tried to describe can be called, it is not true free enterprise. It is, in-

deed, little more than a pale, unconvincing imitation.

We come back to where we started. What, then, is free enterprise? In what does its essence consist?*

THE essence of free enterprise lies in the incentive it provides for individual achievement through the rewards offered in return for great effort and risk. You will only get the best from a community so long as each individual can be sure that the additional effort he puts into his job, the particular skill that he possesses, his special abilities and knowledge, and the enterprise and risks which he takes, will be fairly and suitably rewarded. It means a system in which every man has the opportunity to make the most of himself. But it means also a system in which, once the minimum needs are assured, every man must be prepared to stand on his own two feet, to suffer the consequences of his mistakes or shortcomings, to take the bad with the good. It is a profit economy but it is also a loss economy. It is a system impossible without freedom. And because it cannot function without freedom, it imposes great responsibilities on the individual to see that he acts in a way that is consistent with the freedom he is granted. It aims at private gain; but not

*A brief article cannot pretend to give a full and satisfying explanation of the "free enterprise" system. We have merely tried to focus attention on a few of the essential components.

exclusively. It must also concern itself very earnestly and intimately with the public good.

The widest spread of individual opportunity; the incentive of rewards proportioned to contribution; the prospect of gain in return for efficient service; the penalty of loss for inefficiency; the freedom to plan and to execute, to act on one's own judgment; a high and continuing sense of responsibility for the national welfare and all that that implies; these are the indispensable ingredients of true private enterprise. The institutional forms of private property and contract flow from these, and though essential, are nevertheless incidental.

A GREATLY respected British journal, "The Economist", discussing in 1944 the problems of reconstruction after the war, said:—

"The profit motive, the willingness of men to take risks, is of course, indispensable in a democratic economy; it provides the most powerful of all stimulants to industrial and commercial effort and economic progress. It may even be said that our capacity to solve the industrial, commercial and social problems of the postwar world will depend upon the renaissance of individual enterprise and courage."

Where the British countries have fallen short of solving their post-war problems, may this not be due to their failure to fully revive the spirit of enterprise and courage?

