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## A Better Way for America

by THOMAS B. CURTIS

**T**HERE is a better way for America that is not a radical break with American attitudes and traditions, it requires an understanding of two vital prerequisites for progress — the free enterprise system, and simple honesty in public life.

The essence of the free enterprise system is the market mechanism—the final arbiter of what goods and services will be produced, how, and for whom. Economic theorists as far back as Adam Smith have taught that if all markets for goods and productive services were perfectly free, the society would reach the point of maximum benefit from a given amount of resources, if every individual and firm were interested solely in individual benefit or profit. As the Soviet leaders have found to their dismay, efficient operation of any economy requires a market mechanism in which prices indicate the scarcity values of the various goods and services to be produced. Yet while the USSR is reluctantly acknowledging the benefits a market system can provide, the United States government is en-

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couraging a massive retreat from such a price system.

Profit is the disciplinarian of the free enterprise system. If a firm cannot earn a sufficient return on its investment because its product is unwanted or overpriced, that firm will go out of business, and the people in the firm will move to more productive and more desirable areas of economic activity. If profits in a particular industry are too high, other businessmen will enter that industry to produce the product where such large profits are being made. As

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supply increases, the price of the product will have to drop, unless demand also increases. A properly functioning market system will keep the level of profits in an industry just high enough to encourage sufficient production in that industry to meet the demand for its product.

A profit system provides other valuable incentives as well. It is the only system I know which will encourage a man to do that which he has to do if working by himself, namely, to save for future contingencies, expansion and innovation. The incentive to save and invest is vitally needed to create new wealth and purchasing power and keep the economy growing. We must not forget that scientific and technical advances are useless unless they are embodied in new machines and instruments, or in the skills of the labor force. Without incentives to save and invest, no one would bother to build the new machines or spend the money to keep educating himself and others to operate the new machines.

What should the role of government be in a free market economy? Its primary role must be to maintain the essentials of a competitive system—enforcing fair weights and measures, providing services that cannot be provided through the market system (such as defense), and breaking up through antitrust actions those concentrations of economic power which could afford to ignore the discipline of the marketplace. The centralization of economic power in one industry-wide labor union, as the recent airline strike indicates, is a danger to the public interest just as great as the business trusts which led to the Sherman Antitrust Act in 1890. Now is the time for the same or similar restrictions to be placed upon the arbitrary exercise of labor's power as were rightfully placed on business' power.

The sad fact is that the present Administration has subverted the proper role of government in the economy. Their concern is not how to improve the workings of the market system, but how to restrict its operation. When excessive federal spending creates inflationary forces in the economy, this Administration uses all the vast powers of the federal bureaucracy (including some powers actually prohibited by law) to keep prices from responding to the forces of excess demand. It has used threats of stockpile dumping and antitrust suits to keep the prices of copper, aluminum, steel and most recently, molybdenum, from rising. But when a commodity is in short supply, its price should rise to give the limited supplies to those who need it most (and hence are willing to pay the higher price), and encourage other users to find substitutes for the commodity in question.

One aspect of the better way for America, then, has to be an affirmation of the free enterprise system as a desirable and efficient way of organizing economic activity. The proper role of government is to assist the market mechanism, not to obstruct its operation. We should not forget this principle when we approach the complicated problem of choosing the best methods of taxation. Taxes should be designed to interfere with market incentives as little as possible. What we hear in Washington these days is that the federal government should give part of its revenues back to the states in the form of untied grants, because state and local communities lack the fiscal resources to support needed education and welfare programs. Yet I ask you — which has more effect on incentives, the income tax, the federal government's primary revenue source; or the property tax, the financial mainstay of state and local governments?

When income tax rates are as high as they are today there can be no doubt

that the incentive to engage in economic activity of any sort is weakened. I am confident that a cut in tax rates would stimulate enough additional economic activity to increase the total revenue collected. An income tax cut at this time is impossible, due to the excessive level of federal expenditures, but we should not forget about the possibilities of a tax cut when the inflationary pressures in the economy are eased. The property tax, on the other hand, properly designed and administered, can strongly encourage property owners to put their property to productive use in order to earn a return on it. Whenever federal-state tax-sharing plans are presented as the final answer to revenue problems of state and local governments, I hope we will remember the relative effects on incentives of the property vs. the income tax, and reject these ill-advised proposals accordingly. Even when exercising its taxing power, the proper role of government is to disturb market incentives as little as possible.

There would be much less of a problem in this regard if the bureaucrats

were willing to state publicly their views on the market system. But accompanying the retreat from the private enterprise system has been a decline in political honesty in our society. I happen to think that the two are related—that honesty about goals and methods would doom any attempt by the bureaucrats to substitute their wisdom for free markets in deciding what, how, and for whom goods should be produced. I also believe that a "truth in political labeling" bill is the most important "truth" bill that needs to be before the political leaders and the people today. If this bill were observed as law, most of what is contained in the so-called truth-in-lending and truth-in-packaging bills would have to be jettisoned, particularly their titles.

One thing that I am sure we can agree on is that there *is* a better way for America. I happen to think that the better way lies in a return to the free enterprise system and a revival of the high standards of official conduct which prevailed in this country not forty years ago. It is my hope that some of you will agree with me.

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Let me end with a quotation by Ed W. Hiles which appeared in the April-May issue of the Henry George School Magazine in London: "Freedom is not free and it must not be taken for granted. It was won through sacrifice

and will be maintained only through sacrifice. It can be lost—just as surely, just as completely, and just as permanently—tax by tax, subsidy by subsidy, and regulation by regulation, as it can be lost bullet by bullet, bomb by bomb or missile by missile."