

THE PROBLEM OF MAINTAINING COMPETITION¹⁾

By CORWIN D. EDWARDS.

THE free private enterprise economy is being challenged throughout the world. One part of this challenge comes from persons who believe in the ideology of socialism or communism and who desire to substitute one of these systems for the private enterprise system. The clash between socialists and the supporters of private business is inevitable. It can end only if the believers in one of these rival systems finally convince or outlive their opponents.

This challenge is not the subject of the present discussion. Free private enterprise is also being challenged by two broad tendencies in modern economic society which originate in the activities of persons who believe in the private enterprise system, and who would be dismayed at its overthrow. One of these tendencies is toward state collectivism, the other toward what I shall call private collectivism.

I must concede that the tendency toward state collectivism has come partly from the unsettled political conditions of the modern world. In time of war private enterprise is largely superseded by state control. As the technique of total war has developed, preparations for war have come to require similar extensions of state control. Throughout most of the world there have been two great wars in a single generation, and much of the period between them has been one of preparatory armament. Today we live amid alarms and activities which arise largely from the fact that, with no secure peace yet established, a third world war appears possible. If the world must continue to live in the shadow of war, state control for military ends will inevitably become normal, and private enterprise can have little more than a vestigial place in the world economy. Hence the first requisite for maintenance of the free private enterprise system is to establish a peace which shall be reasonably secure.

But apart from the threat of war, state collectivism has been growing through the activities of business groups which distrust the state and dislike extensions of its power. Some of these groups are engaged in efforts to persuade their governments to give them special privileges at the expense of other business groups. The oldest of such privileges is the tariff, by which

¹⁾ Lecture to Nationaløkonomisk Forening, May 1948.

THE PROBLEM OF MAINTAINING COMPETITION¹⁾

By CORWIN D. EDWARDS.

THE free private enterprise economy is being challenged throughout the world. One part of this challenge comes from persons who believe in the ideology of socialism or communism and who desire to substitute one of these systems for the private enterprise system. The clash between socialists and the supporters of private business is inevitable. It can end only if the believers in one of these rival systems finally convince or outlive their opponents.

This challenge is not the subject of the present discussion. Free private enterprise is also being challenged by two broad tendencies in modern economic society which originate in the activities of persons who believe in the private enterprise system, and who would be dismayed at its overthrow. One of these tendencies is toward state collectivism, the other toward what I shall call private collectivism.

I must concede that the tendency toward state collectivism has come partly from the unsettled political conditions of the modern world. In time of war private enterprise is largely superseded by state control. As the technique of total war has developed, preparations for war have come to require similar extensions of state control. Throughout most of the world there have been two great wars in a single generation, and much of the period between them has been one of preparatory armament. Today we live amid alarms and activities which arise largely from the fact that, with no secure peace yet established, a third world war appears possible. If the world must continue to live in the shadow of war, state control for military ends will inevitably become normal, and private enterprise can have little more than a vestigial place in the world economy. Hence the first requisite for maintenance of the free private enterprise system is to establish a peace which shall be reasonably secure.

But apart from the threat of war, state collectivism has been growing through the activities of business groups which distrust the state and dislike extensions of its power. Some of these groups are engaged in efforts to persuade their governments to give them special privileges at the expense of other business groups. The oldest of such privileges is the tariff, by which

¹⁾ Lecture to Nationaløkonomisk Forening, May 1948.

the members of an industry within a single country impose a handicap upon foreign business men in the same industry. By use of most favored nation clauses, by so-called scientific tariff-making, and by reciprocal agreements to reduce tariff rates, commercial countries have been able, at times, to limit the disruptive effect of tariff barriers upon the world economy. In recent decades, however, tariffs have been supplemented by other forms of legislation with a similar private purpose. In some cases the domestic market has been subdivided by trade barrier laws designed to give preference to local business men over business men from other parts of the country. For example, local governments have sometimes been required by law to award public contracts to local contractors. In other cases admission to a type of business activity has been made subject to state licensing, and means have been found to administer the licensing system in such a way as to protect established concerns against newcomers. In the United States, for example, the tile contractors, who install tile in the floors and on the walls of bathrooms, persuaded the State of North Carolina that no unlicensed contractor should be permitted to do such work. They also succeeded in getting members of their association chosen as the licensing board. Sometime later on one of their officers reported with pride that three examinations had been given to candidates for licenses, but that no one had passed.

Where one business group undertakes to strengthen itself through such governmental favors, counter-efforts by other business groups are almost inevitable. A large part of competition among business men is transferred from the market to the legislative halls. Each new bit of restrictive legislation adds to the mosaic of public controls established for private purposes. The aggregate result—intended by none of those who bring it about—is a great extension of state control and a progressive decrease in the freedom and privacy of the business system.

A second way in which business groups unintentionally promote state collectivism is by demanding state aid in time of distress. In a system of free private enterprise, business men themselves determine what risks they will take and what activities they will carry on. The result is sometimes profit and sometimes loss; and both profit and loss are inevitable and desirable parts of the incentives to action under such a system. Indeed, one of the strongest arguments for private enterprise is the fact that the harm done by private business mistakes can be limited through bankruptcy, whereas governmental undertakings which are ill-conceived or mismanaged do not necessarily die. In some business quarters, however, it is becoming fashionable to be unwilling to live in a profit and loss system, but instead to demand that there be always profits. Where loss is incurred the state may be asked to prevent it by such controls as the establishment of minimum

prices or to alleviate it by subsidies from public funds. The homely saying that he who pays the musician calls the tune is applicable to such developments. If the state is to rescue business men from their losses, it will inevitably seek to control the risks that are to be run and the activities that may produce loss.

The state collectivism which has emerged from restrictive legislation and from public programs designed to rescue business is probably more extensive in most countries than that deliberately created by believers in state collectivism. It is also less defensible. It saps the virtues of the private enterprise system as surely as if it were a deliberate attack upon that system. Business choices cease to be free; initiative and opportunity are curtailed; inefficiency is encouraged; and bureaucratic red tape grows apace. But this type of collectivism offers none of the alternative virtues which are claimed for the ideological collectivist systems. It is devoid of central planning and of social purpose. If the tendency continues it will afford us, at worst, a stultification of the constructive forces of a private enterprise economy; and at best, merely an incentive to substitute planned and purposeful state action for that which is unplanned and purposeless. In either case, unless the tendency is checked free private enterprise cannot survive.

The second broad tendency which is endangering free private enterprise is that toward private collectivism. It consists in the organization of cartels and in the progressive concentration of economic power in a few corporate combinations. In the cartel, collective decision takes the place of the separate decisions of the members with reference to such crucial matters as the level of prices, the amounts to be produced, the markets to be served, and the rate of technical progress. Collective decision is established first on an industry-wide basis and later in federated organizations which may come to represent a large part of the economy. In the great corporate combination, power is concentrated through ownership and through various legal devices for centralizing management, and decision at the center of power is substituted for many free decisions by separate business interests. Concentration may not only go so far as to establish monopoly in a particular industry, but may also extend across industrial boundaries to bring whole segments of the economy under a single control. The effects of both cartelization and concentration are to create private business governments which supersede competitive private enterprise. As these business principalities grow through federation or conquest, their resemblance to political states becomes increasingly apparent, except that they are not responsible to the community for their decisions.

This description is not intended to apply to various incidental forms of cooperation among businessmen. The essential freedoms of a competitive

system are not destroyed if business men act together to do various harmless or socially useful things which they cannot do separately, — for example, to pool the statistical information arising in their separate businesses. The problem arises when collective action develops in making the basic business decisions about expansion, technological change, amount to be produced, quality and price. In these fields private collective action is restrictive in purpose, that is, it is designed to increase the power of those who act together by means which are likely to injure third parties. Though cartels sometimes carry on incidental activities of the harmless type, their central purposes are restrictive. It is these purposes that are here called into question.

Although the cartel system runs at least as far back as the middle of the last century, the great development of cartels came after the end of the first world war. These organizations proliferated on both a domestic and an international scale. Similarly the development of modern large corporate enterprises became important at about the beginning of the present century, but reached new heights in the 20's and is now being pushed still further. Unless the tendencies toward cartelization and concentration of business power are checked, the private enterprise system will cease to be primarily competitive and free. Instead it will become a system of private collectivism.

Amid these tendencies toward state collectivism and private collectivism, the desirability of private enterprise has become a matter of controversy. In few parts of the world is private enterprise invulnerable to attack. In most countries it has been exposed to an increasingly vigorous ideological challenge. Nevertheless, there has seldom been a clearly defined difference of opinion upon a well understood issue. The advocates of the private enterprise system defend it for attributes which the collectivists do not often attack. The opponents of the private enterprise system condemn it for characteristics which its advocates seldom defend.

Specifically, those who believe in the private enterprise system emphasize that it has given us very high levels of production and with them mass consumption and high standards of living; that it has stimulated individual initiative and provided great flexibility; and that it has encouraged progress in technology at an unprecedented rate. The goals envisaged in this defense are acceptable to collectivists, and so far as these points are concerned, the argument turns upon whether the private enterprise system can and does perform as described. The opponents of the system describe it differently. They say that it is typically monopolistic and cartelized. They see in it the typical symptoms of monopoly: high prices, restrictions of output and consequently of employment, policies designed to produce exorbitant profits. They associate these monopolistic practices with class differences, with

closed channels of opportunity, and with chronic instabilities such as those which spring from the business cycle. The private enterprise system which actually surrounds us has aspects which fit both descriptions, and thus the controversy turns upon the question, which description best expresses the fundamental attributes of private business.

These conflicting descriptions coincide roughly with the behavior which characterizes two different types of private enterprise: the competitive and the privately collective. Flexibility, individual initiative, rapid technological progress, high productivity, low prices, and wide use of goods are usually promoted by intense competition. Indeed, the philosophy of free enterprise which has been developed by economists over a period of nearly two centuries has always taken for granted that competition is necessary to make the profit motive publicly serviceable. In the early days, when this point was put most simply, the competition of the market was described as the means by which the private vice of greed could be made to yield public benefits.

On the other hand, restriction of output, high prices, reluctance to make technical changes which impair existing investments, and unwillingness to admit new enterprises to the market are notorious characteristics of monopoly control. The point is so obvious that there has never been a widely accepted and respectable economic defense of private monopolistic enterprise. The apologists for monopoly are nearly always those who stand directly to gain by it. Among others the most that is said in its favor is that *some* monopolies, in *some* circumstances, may contribute *something* to the reduction of costs or to the stability of business in time of depression; and even this limited defense is highly controversial.

In effect, then, those who defend private enterprise do so because of its competitive characteristics and those who attack it do so because of its monopolistic characteristics. The attack is effective because many elements of monopoly exist in the private enterprise system and because private monopoly is not really defensible. The defense is effective in so far as the system retains a predominately competitive character and provides the results which are likely to flow from competition.

Lest this analysis appear to be unduly influenced by American ways of thinking, let me support it with three quotations from the London *Economist*, in which very much the same point is made.

"The British business man has also in the last quarter century, found ways and means of removing the stick from his back. The growth of trade associations, of price-fixing and market-sharing devices—the whole apparatus of protection, in fact—is inspired by nothing so much as by the desire to prevent the bankruptcy of the inefficient—even if, thereby, the progress of the efficient is also impeded..."¹⁾

¹⁾ London Economist, June 29, 1946, p. 1034.

"In years of reasonable prosperity, there can be no doubt at all that restrictive trade associations greatly reduce the volume of capital investment. They are designed to protect the profits of the industry. Fair words, of course, are spoken; it is only the 'reasonable' profits of 'efficient' producers that are to be protected. But these are weasel-words, and the decision is given by a trade association elected by the producers themselves. It cannot afford to have too many dissidents; the managers must retain their majority. So a firm has to be manifestly incompetent before it is refused the cachet of 'efficient', and profits become extortionate before they are adjudged 'unreasonable'. And if the existing costs of production, using the existing methods and the existing equipment, can be protected in this way, what inducement is there to spend a lot of money and take a lot of risks in lowering costs? Machinery will, indeed, be replaced when it is worn out, or when the slow and stately process of saving up cash to replace it has reached its leisurely conclusion. But the machinery-makers are also protected and cartelised, so that the new machinery is not likely to be very much of an advance on the old. And in any case, there is no incentive to undertake any radical departures. If any member of the ring is ill-advised enough to try to get the cost of production down and thereby put pressure on his fellowmembers to make themselves efficient too-well, he can usually be tripped up in his financial arrangements or brought to heel by some other method. In the sacred name of Security, no one should be allowed to disturb any established interest or practice. Why, somebody might be thrown out of work.

There is, unfortunately, very little element of caricature in this portrait of British industry...¹⁾ But a competitive economy, such as the American, when one firm acquires a more efficient machine and cuts prices, all others are compelled to follow suit, whether they can 'afford' to or not. It may be financially unsound, but it is technically progressive, and it is certainly not a coincidence that the years in which British industry has fallen behind in its technical methods were the years in which industry and the state conspired to suppress competition...²⁾

The significance of such restrictive policies in weakening the resistance to the state collectivism has been brought out by the London Economist in a later article.

"The fact is that British industrialists, under the deliberate leadership of the Tory Party in its Baldwin-Chamberlain era, have become distinguishable from British Socialists only by the fact that they still believe in private profits. Both believe in 'organising' industry; both believe in protecting it, when organised, against any competition, either from foreigners or from native newcomers; both believe in standard prices for what they sell; both unite in condemning competition, the one as 'wasteful', the other as 'destructive'. If free, competitive, private-enterprise capitalism is to continue to exist, not throughout the national economy, but in any part of it, then it needs rescuing from the capitalists fully as much as from the Socialists."³⁾

These judgments may be regarded as unduly harsh, reflecting a willingness to see the world in sharp distinctions of black and white. There can be no denying that instances of monopoly and cartelization differ from one another in the severity of their restrictive policies, and that either because

¹⁾ London Economist, Sep. 9, 1943, p. 342. ²⁾ Ibid., June 29, 1946, p. 1034. ³⁾ Ibid, April 26, 1947, p. 612.

of circumscribed opportunity or because of the farsightedness of those in control, some monopoly policies are relatively moderate. But although limited restrictions are preferable to extreme restrictions, both are alike restrictive. Moreover, it is significant that, in so far as monopoly power has been obtained, nothing but the self-restraint of those in control remains to protect the public. To rely upon the good will of those who possess arbitrary power as a sufficient safeguard of the public interest is as hopeless in economic affairs as in political affairs. It is to revert to Aristotle's theory that for the salvation of society philosophers must become kings or kings must become philosophers.

Even in the case of great and responsible enterprises, monopoly power is often exercised in ways repugnant to economic common sense. Let a few examples make the point.

The extremes to which monopolistic price policy may be carried are illustrated by a letter from an executive of Imperial Chemical Industries to an official of du Pont in February 1941.

"Vinylite resins are now marketed in the U.S. at \$40 per pound, of which the makers (Union Carbide Corporation) get \$8 per pound, or one-fifth. These prices are, of course, wholly artificial: but nevertheless they are actually realisable and it is clearly of the highest importance to preserve the situation. It is, therefore, essential to us that your company, when it comes to marketing a similar product, avoids the making of any arrangements which might in any way tend to lower the price of Resin M for dental work, or to make it possible for the above-mentioned dental houses to buy the material in the United States for export to this country or dominions."¹)

The reluctance with which improvements may be made in commodities except under competitive pressure is illustrated by a letter from Anton Philips of the N. V. Philips Company to Girard Swope of General Electric in 1938 with reference to the danger of introducing fluorescent lighting.

"We have already a lot of those tubes which are burning 3000 to 4000 hours with a drop of economy of about 30 percent. So it might be that we all are going to replace a part of ordinary 1000-hour lamps in tubes which will burn at this moment three to four thousand hours with a drop of 30 percent in economy, but which might grow to six or eight thousand hours; now, of course, we could try to make the tubes of a quality which is not so extremely good, but we all know that when there is coming competition (patents not being very strong) and our competitors bring a lamp on the market with an extremely high life, we have to follow them."²)

The readiness with which restriction of output may be embraced as a device to maintain a monopoly position is illustrated by a report from a representative of du Pont concerning his negotiations with the Dutch producer who was unwilling to limit production.

¹) Economic and Political Aspects of International Cartels Monograph No. 1 of the Subcommittee of War Mobilization of the Senate Committee on Military Affairs, pursuant to S. Res. 107, 78th Congress, Second Session, 1944 p. 13. ²) Ibid p. 17.

"As you will have seen from my cable, he is very stiff-necked about his position. He claims very low costs and is determined to export that portion of his production (which to him apparently means capacity) which he cannot sell in Holland. ... I'm afraid you and your friends are going to find him a difficult problem. I used all the arguments you gave me and a few I thought up myself, but he is simply determined to sell his output."¹⁾

The way in which research may be perverted for monopolistic ends is illustrated by the efforts which were made to prevent a new pigment from being used as a textile dye because of fear that it might upset the price structure upon textile dyestuffs. A memorandum of conference between du Pont officials and representatives of General Aniline Works in 1947 reads in part as follows:

"After detailed discussion of various modes of attack the following appeared to be outstanding...:

(d) Deteriorate cotton.—Compounds might be incorporated into CPC which when applied to textiles and followed by bleaching or heating treatment might increase the deterioration of the cloth. Compounds such as chlorates or aliphatic halides which would produce hydrochloric acid were specific examples....

(g) Irritating substances.—It is known that certain resins and solvents are irritating to the skin, often causing dermatitis. It might be possible to formulate a CPC composition which will make textile materials irritating to the skin...."²⁾

Finally the way in which cartel agreements may be used to assign world markets to business enterprises is reminiscent of the establishment of spheres of influence by imperial governments. As an illustration consider the basic radio agreement which was made in 1925 and was still in effect in 1939 between International General Electric Company, Radio Corporation of America, Westinghouse Electric International Company, N. V. Philips Gloeilampenfabrieken, and N. V. Philips Radio. After listing certain territory to which the agreement did not apply the document continued.

"(B) The exclusive territory of the radio group [I. G. E., R. C. A. and Westinghouse] shall be Canada (including Newfoundland), the United States of America and its possessions, colonies, dependencies, dominions, and protectorates except Cuba and the Philippines.

(C) The exclusive territory of the Philips Company shall be the following countries together with their respective colonies, possessions, dependencies, dominions, and protectorates subject to the provisions hereof including 'schedule B'. [Schedule B includes a list of nonexclusive patent rights already granted to others in Philips territory.]

Holland, Czechoslovakia, Denmark, Esthonia, Finland, Latvia, Lithuania, Norway, Sweden, Switzerland..."³⁾

If this analysis is accepted, it follows that success in keeping private enterprise from being absorbed by the state depends in large part upon success in keeping business competitive. Without avoidance of private collectivism there can be no eventual avoidance of public collectivism.

¹⁾ Ibid p. 25. ²⁾ Ibid p. 37. ³⁾ Ibid. pp 20, 21.

How can competition be preserved, and how reestablished where it has disappeared? Success in maintaining competition requires both private and public action. In a democracy it is doubtful that the state can keep the economy competitive unless most of the business community desires this result. For in any democratic society general sympathy with the law is a necessity condition of its effectiveness. Hence the first private step which is needed is active support of the competitive policy by business men. Business men who wish to preserve the private enterprise system would do well to avoid appealing to the state for laws designed to give them a favored position. They would do well to cease trying to get the state to rescue them from business losses. They would do well to shun cartel schemes. They would do well to avoid industrial empire building beyond the limits within which an increase in the size of the concern clearly enhances technical efficiency.

Since such policies of self-denial cannot be expected to receive universal assent, an important police function remains for the state. A state which desires to preserve the private enterprise system would do well to take active steps to prevent cartels and to limit the concentration of economic power. So far as possible, these measures should be centered upon the prevention of future monopolistic developments, but where cartels and monopolies are well established there is also need to destroy existing monopoly controls. The anti-trust laws of the United States and the Combines Investigation Act of Canada are illustrations of public efforts to preserve free enterprise by preventing private collectivism.

Apart from this police function, a state which wishes to preserve the private enterprise system should engage in various positive types of action designed to foster healthy competition. It should encourage access to markets by all enterprise, foreign as well as domestic, new as well as old. It should encourage the rise of new and small enterprises, particularly by removing obstacles which may handicap such concerns. In my own country, for example, there is need for a new type of financial institution through which it will be easier to raise equity capital in small amounts, and state action designed to bring about the establishment of such institutions would be appropriate. The state should also provide a full opportunity for education and for development of personal skills, in order that everyone who has the capacity to lead may have an opportunity to do so. It seems to me no accident that economic competition and emphasis upon universal education have gone hand in hand. Similarly, the state should prevent, so far as possible, a favored status for any of its citizens, whether this is based upon race, religion, lineage, wealth, or some other type of class distinction. It is particularly appropriate to promote the diffusion of wealth and ownership by taxes designed to limit the size of inherited fortunes.

I think no state—certainly not my own—has fully adopted such a competitive policy. In consequence, competition is not perfectly maintained, even in those countries which are most aware of the need to maintain it. Progress in more effective application of the competitive policy is the constructive alternative to a drift away from competition toward collectivism.

A policy designed to preserve competition is not inconsistent with various types of public control. Supplementary policies are necessary if competition is to have satisfactory results. For this reason, adoption of well selected programs of limited public control may do much to prevent more ambitious types of collectivism.

Three types of state action may be used to illustrate this principle. The first is state action to prevent the kind of competition which has socially undesirable results. A great virtue of competition is that it mobilizes human energy and focuses it to reduce costs of production. In dealing with labor this virtue may be a vice. We do not want costs reduced by child labor, long hours, and very low wages. Thus it is appropriate to supplement competition by measures to protect wages and hours and the working conditions of employees, whether these measures consist of collective bargaining, state labor legislation, or both. Similarly, we do not want costs reduced by the waste of exhaustible natural resources. For this reason it is appropriate to supplement competition by government regulations designed to conserve resources such as petroleum in the ground or diminishing supplies of fish in the sea. Again, we do not want competition which consists in exploiting the ignorance of the uninformed and unwary. It is appropriate, therefore, that the state maintain certain standards of commercial honesty, not only by laws against fraud and adulteration, but also, in some fields, by grading commodities, by requiring that their ingredients be disclosed, by making public tests of their performance, and by other similar devices.

A second and equally obvious field for public action is the provision of security against business depressions and against personal hazards. Insurance against sickness, old-age, and unemployment are useful ways of protecting the individual against some of the risks of freedom without impairing that freedom. Moreover, efforts to prevent mass unemployment and business depressions are obviously desirable. It is clear that, although monopolies and cartels do not prevent business depressions, competition does not prevent them either. It is appropriate for governments to adopt policies designed to stabilize the economy, as rapidly as suitable means can be discovered. In my own country we have recently established the Council of Economic Advisors which reports to the President about the future level of business and has the duty to make recommendations for counteracting the beginnings of a depression. No one knows where this program will eventually lead, but it is expected that the first devices to be used will be modifi-

cations of the tax program and of policies of government expenditure, designed to compensate the swings of private business.

A third appropriate type of public action is state ownership or regulation in various fields not suited to competitive private enterprise. An obvious illustration is the so-called natural monopoly, such as the telephone system, in which effective service depends upon having all subscribers connected with one another. Again, central banking appears to be so nearly akin to the issue of money as to justify public regulation or public ownership. In my own country we have recognized this fact by establishing the Federal Reserve banks under national law and under a degree of public control which makes them, for practical purposes, state institutions.

It is appropriate also for the state to undertake great multiple-purpose developments of natural resources where these are too large or complicated or returns are too slow to be within the scope of private business. An illustration of such a project is the Tennessee Valley Authority, which has dammed rivers for purposes of power development, flood and erosion control, irrigation, and navigation. When this project was launched some persons asserted that it was socialistic and that it would ruin the private power companies in the area. Instead, the private power companies have reduced their rates, increased their sales, and maintained their profits. The large amounts of new power which the public project has made available have brought thousands of new enterprises into the valley. The collective project and private enterprise have progressed together.

Finally, it is obvious that as long as nationalism remains important in the world the state will regulate or own activities, such as the development of atomic power, which are of crucial importance to national security.

A system of competitive private enterprise, thus supplemented, requires a many-sided and affirmative policy, far removed from *laissez faire*. In view of the fact that it includes substantial public regulation and perhaps public ownership, the question may be raised how this kind of competition is to be distinguished from state collectivism and how the boundaries are to be established between private and governmental activities.

The answer is that the preponderance of economic activity should be private. There should be enough private enterprise to establish norms which can be used in judging the performance of public enterprise, and there should be enough private enterprise to pay the taxes which are required to meet the deficits of those activities that are not operated by private enterprise. Competition should be the rule and public control the exception. Exceptions should be freely made where adequate reason can be shown, but the burden of proof should rest in each case upon those proposing the venture.

Such a principle is necessary not only so that the preponderance of eco-

conomic activity may be free, private, and diffused, but also so that state activities may be undertaken with care. There is an enormous gap between a political slogan and an economic program. For the state to carry out an economic project successfully, the goal must be clearly defined; there must be knowledge of means reasonably sufficient to achieve the goal; there must be enough agreement upon ends and means to prevent the changing fortunes of political groups from destroying the continuity of the public undertaking. If these requirements are met, the project which meets them can assume the burden of proving its desirability. If they are not met the project should not be adopted.

Competition is the appropriate principle for fields of action in which purposes are uncertain or conflicting or in which means are not clear. Competition produces experiment and thus clarifies issues. In a competitive situation we can permit some persons to fail. But when the state alone is to act, failure would be disastrous.

In practice, then, the vigor of the private enterprise system depends upon our success in purifying it from its tendencies toward short-sighted, unplanned, and undesired state collectivism without ideological basis, and from its tendencies toward monopolistic private collectivism. If the private enterprise system can be kept vigorous, the ideological conflict between socialism and private enterprise will be sharper than the facts warrant. The practical alternatives will be competitive private enterprise with some admixture of state control and state collectivism with considerable remnants of private action. The important issue between these two ideologies is where the burden of proof should lie. If the presumption is in favor of collectivism, we may undertake many ill-considered ventures. If the presumption is in favor of the competitive private enterprise system, we can afford to undertake cheerfully as many collective projects as prove to be suitable exceptions.