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Baron Edmond de Rothschild

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## **The Future of Free Enterprise: Can It Survive Government Interventionism?**

*Baron Edmond de Rothschild\**

Free enterprise is the indispensable prerequisite for personal freedom, which I dare believe is still highly valued by most people. Hence, it is also the only economic system which is compatible with the democratic governments of Europe and America. However, the vitality of free enterprise is being threatened by government interventionism on both sides of the Atlantic. In Europe, this manifests itself in taxation, nationalization, restrictive policies, subsidization, labor laws, and the growth of the public sector. In America, we find much of the same, excepting nationalization. In order to restore vigor to the weakened private sector, we must return to traditional economic liberalism, while fostering free trade between the United States and Europe.

Certainly, it has become an accepted fact that our Western civilization has developed a culture of the apocalypse where the collapse of traditional values in ethics, religion, economics, and politics has brought the Western world to the brink of disaster. Nevertheless, being for obvious reasons a believer in modern democracy and its cohort, free enterprise, I cannot uphold the idea that liberalism<sup>1</sup> will inevitably fall.

The appearance of industrial capitalism in England at the end of the 18th century brought about an unprecedented increase in growth rate. History has shown that industrial capitalism created great wealth and distributed it widely—more widely than ever before or since. Industrial capitalism also gave the opportunity to a large number of people to choose their means of livelihood and to thereby determine their own destiny. As a result, it gave to mankind real personal freedom and economic prosperity at the same time. Since the phenomenon of indus-

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\* Chairman of the Board of Directors, Banque Privee S.A.

<sup>1</sup> The term liberalism as used in this Perspective refers to "a theory in economics emphasizing individual freedom from restraint and usually based on free competition [and] the self-regulating market [and] a political philosophy based on belief in progress, the essential goodness of man, and the autonomy of the individual and standing for the protection of political and civil liberties. . . ." WEBSTER'S NEW COLLEGIATE DICTIONARY 662 (1977).

trial capitalism in England was accompanied by the export of capital, technology, machine-tools, and skilled manpower to other developing nations, it soon became international.

The international rise in industrial capitalism was not without its problems, however. An economy based on a free market implies development and adjustment to constantly changing costs, consumer habits, and advancement in technology. This development and adjustment often requires great effort, and those who do not keep up are left behind. Nevertheless, the system's benefits far outweigh its costs.

Industrial capitalism has a phenomenal ability to achieve this development and change by the actions of, and for the benefit of, the vast majority of the people in the society. Its chief force lies in its ability to motivate individuals and its recognition of individual performance, which is spurred-on by material and moral compensation. However, material and moral compensation for individual performance must not be viewed as the primary aim of the economy.

We must also applaud efforts to generate profits, which in the final analysis bring about an even higher standard of living. Profits earned by a company *do not* primarily serve to pay dividends. They are also used to finance investments, to increase productivity, to create new jobs, to improve company welfare schemes, and, to an increasing extent, to satisfy the state's financial requirements. Profit, therefore, is the key to the future.

Although the West has created a productive and affluent society, admittedly it may not have created an ideally egalitarian one. The Western free market has been criticized on this ground in times of prosperity and during recession. The criticisms of the free market's efficiency are usually based only on its mistakes and shortcomings. On the other hand, the collectivist economies have certainly not achieved any greater success in establishing economic equality. When one compares the increase in the prosperity of the middle and working classes, the redistribution of wealth, and the standard of living of the Western world with what has been achieved by collectivist states, one cannot ignore the disparities. The standards of living in the collectivist states are considerably lower; they are saddled with all-powerful bureaucracies, and freedom of the individual within them is severely restricted.

Despite its achievements, free enterprise is now under threat. It has lost its prestige among many intellectuals. Some of the negative effects of very rapid Western industrialization have created an ecological, sociological, and philosophical panic which in turn threatens the principles of liberalism through increased government intervention in

the workings of the free enterprise system. Of course, the difficulties and complexities of the political and economic problems requiring solutions have sometimes attained extreme proportions. Nevertheless, as a private businessman, I feel acutely how the vast mechanisms behind modern democratic nations allow no time or energy for working out effective and long-range remedies. Regulations by the Western states have grown in quantity, and yet the free world has become even more short-sighted in regard to the future. Legislation is drafted at record pace, but no laws bring simplification to our lives. Almost everywhere, the free-market economies function in a no-man's land somewhere between capitalism and socialism. Within these economies, there is an ever-decreasing sense of personal responsibility. More people think only of their rights, and fewer think of the obligations related to the preservation of those rights. That is, they fail to realize the link between the political freedom of mankind which they cherish and the economic freedom which the private sector must have to survive.

One must admit that government intervention and its corresponding reduction in economic freedom has sometimes been sought after by the private sector as a solution when difficulties arise. However, this cannot account for the astounding growth of government intervention which has taken place in the Western world.

A large portion of government intervention has occurred because of government hostility toward industrial capitalism. It is almost inevitable that a government—particularly an active one—should view industrial capitalism with some hostility since it constitutes a countervailing power to the state. In the government's effort to control society, the power of free-moving industrial capitalism becomes an object of disdain; it cannot be controlled, for it is dependent upon continual development, adjustment, and change. The government thus intervenes in the free market system to obtain control over the hostile force of industrial capitalism.

Another factor which encourages government interventionism is that the public today asks not only for economic affluence, but also for non-financial benefits related to the quality of life, such as job enrichment and a clean environment. Large groups of people express the opinion that private business has successfully provided us with a decent standard of living but so far has proven incapable of satisfying spiritual and human needs in life. They short-sightedly believe that the government or other non-private enterprise authorities are better qualified to achieve these aims. This mistrust in the ability or willingness of private business to satisfy social needs is not surprising. It shows that private

business has failed to adapt itself fast enough to the social and cultural changes. However, I am confident that private business will once again show its versatility and, together with cooperative government, stimulate change to bring about conditions to provide greater satisfaction for the public. However, this cannot come about with increased government intervention, for the level of intervention is beginning to engulf the system of industrial capitalism upon which the public is dependent to achieve the goals which it seeks.

As an expression of its hostility toward industrial capitalism, governments may use several measures: nationalization, subsidization, taxation, restrictive policies, labor laws, and the creation of a large, non-productive public sector. The use of these measures to intervene in the free enterprise system menaces the equilibrium of the free world but in slightly different ways in Europe and America.

Nationalization is a typical expression of this hostility toward industrial capitalism in European countries. Each time the State takes over an unprofitable private firm, the loss must be added to the taxpayers' bill. The shrinking productive sector is then condemned to carry the burden of an ever-increasing, loss-making public sector.

Subsidization has also become prevalent in Europe. With apparently inexhaustible resources, the governments, in their efforts to help failing industries, also distribute subsidies to them. There are compelling reasons, however, for the failure of industries over time as a result of the change inherent in the capitalistic system. Since the subsidies cannot make profitable what has become a failure in the free market, the recipients of the subsidies and the public will eventually pay for losses out of their own pockets *via* new taxes.

Therefore, governments must resort to taxation in an attempt to pay not only for nationalization and subsidization, but also for their administration and attempts to control. However, while taxation for purposes of a certain amount of government administration may be reasonable, taxation for purposes of control is not. Once the government imposes a tax in order to change and control the function of the free market, the ramifications are felt throughout as the system is disturbed. When the disturbances become many and great, the system can no longer function, for it is no longer free to develop, adjust, and change as it must.

Restrictive policies have also become popular as a method of intervention in Europe. For a hostile government, it is much easier to control a market where economic power cannot concentrate even though the free market may dictate that such concentration will result in an

improved allocation of resources. Thus, through the widespread use of restrictive policies, the European governments have attempted to, and have often been successful at, countervailing the power of industrial capitalism. Moreover, the costs of restrictive policies are passed-on in increased prices to all because the allocation of resources is put in imbalance.

Another typical European threat, which has become increasingly onerous and obvious in Great Britain, is embodied in the legal privileges accorded the labor unions. The unions have become immune from legal liability and, as a result, have abused the privileges given to them. Their actions often result in low productivity, low investment, and low profits. In Europe, production costs—especially those coupled with pension and social benefit schemes—are increasing more rapidly than productivity. The result is that it is becoming cheaper to manufacture certain goods in the United States. In spite of this, the pressures of social contribution and taxation on companies are becoming even greater. The abuse of the legal privileges by the labor unions has therefore weakened the private sector, including labor, for the sole benefit of the interventionist government in its quest for power and control over industrial capitalism.

Lastly, we see in European governments vast increases in the size of their respective public sectors. In their attempts to intervene with the free market and industrial capitalism, the governments are constantly expanding their reach. As they engage in new programs to expand their reach, their numbers must grow. When their numbers grow, their powers grow so that growth of their public sectors becomes another aim of the interventionist governments. The growing public sectors, however, compete with no one; they thus have no incentive to be productive or efficient. Their inefficiency is then paid for by the public through increased taxation, and their powers over industrial capitalism grow.

The intervention by European governments in the free market, upon which industrial capitalism is so vitally dependent, has had devastating consequences. Generally speaking, entrepreneurial risks have become much greater, potential investments are neglected of necessity, cash-flows are receding, capital resources are weakening, and unemployment is growing. The tendency of the modern European government to make steadily increasing demands on the economy while placing severe restrictions on business freedom and virtually punishing improvement in performance through taxation is extremely dangerous and costly for all. An immediate danger, which I have seen on this side

of the Atlantic, is that business and financial circles have become demoralized and defeatist in attitude.

Except for the tendency of European governments toward nationalization, I am afraid the United States is following the general European trend. It is obvious that government harassment of private enterprise is growing in the United States, but the most striking example of a blow at liberalism in the United States is the regulations concerning international trade. It is no less than amazing that, while the Western nations officially work to achieve success in trade negotiations, the United States continues to exercise restraint by imposing new barriers on international trade. As everyone must clearly understand, policies of protectionism are not the answer. They merely worsen the problem in the long run by fostering unemployment, increasing inflation, and undermining the welfare of the people in all Western nations. Each time the leaders of the free world meet—and this includes the United States—they reaffirm their commitment to an open and non-discriminatory world trade system and to create thereby wealth for all through increased and fair trade. This is an attitude which, in my opinion, has not been totally adhered to in the United States. I agree that changes implemented by the United States must be progressive and spread over a number of years so as not to create an abrupt impact on its domestic trade. However, the appropriate safeguards do exist to ensure gradual adjustment.

Instead of dwelling on the difficulties of trade liberalization, the United States should look far down the road with a vision toward expanding trade, increasing jobs, and bringing about wealth and well-being for a greater number of people, including the people of the United States. I submit that the United States has taken a contradictory stance, for, while it is aware of its dependence on the world economy, it has not relinquished its protectionist attitude. Since World War II, Americans have understood the need to contribute to a prosperous and orderly world as a logical consequence of their global political and security responsibilities. Moreover, in recent years Americans have come to realize how closely their own economy is linked with those of other nations. Oil and commodity price increases, for example, have contributed significantly to their rate of inflation, and their dependence on imported energy and vital raw materials is increasing. Yet the United States continues unwisely to resort to the imposition of trade barriers.

The United States faces the same crises that we do in Europe, even if the interventionist approaches employed by the European govern-

ments may be somewhat different. Ironically, the rules, regulations, and taxes intended to help our world function are contributing to its ruin. The Western governments and their peoples increasingly continue to restrain, impair, and over-burden the capitalistic system upon which their prosperity is dependent.

I hope and have become convinced, however, that the governments and leaders of our free world are coming to understand the needs of industrial capitalism and the necessity of far-sighted economic cooperation which will allow industrial and capitalistic nations to maintain global prosperity. At the very least, they should be encouraged by all that industrial capitalism has achieved in the past in order to make the long-range changes necessary for the future—changes toward a freer and less burdened international market, which industrial capitalism requires.

I have endeavored to briefly outline my impressions, acquired through my involvement in business entities on both continents, of the evolution of government and business in the Western world since the rise of industrial capitalism. I have good reason to believe in the continued and improved strength of our societies and in the democratic principles which give them their vitality. It is through democratic principles and their preservation that we will have the ability to shape our future, broaden the structure of global cooperation, overcome our problems, and bring about long-lasting peace and prosperity.