

INSTITUTE OF CURRENT WORLD AFFAIRS

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Nationalism, Socialism,
and Free Enterprise

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Dear Dick:

One of the assumptions that has become fastened to the post-war thinking of many leaders of new states is that rapid economic development can only occur if the economic role of the state is expanded and the role of private enterprise is minimized. Nationalism - the force that welds diverse tribes, religions, and cultures into a state requires, in this view, that the economy of the new states develop in a socialist pattern.

A thoughtful Ghanaian put the assumption clearly when he said that new states must build their economies in the same way an African chief calls on his tribesmen to come with him to plant maize. The maize is planted by the community and all can use it. This is socialism. Private enterprise would leave the planting to individuals who could sell at a profit and thus exploit the people of the village.

The crucial question is which method produces the best maize most rapidly - the greatest increment of wealth for the greatest number of people in the shortest period of time.

The assumption of the leaders of many of the newer nations is that the socialist approach is best. This line of thinking is expressed in a recent study in India by a Congress Party Committee. In an analysis of India's current five-year plan, the Committee found "complete chaos" in some rural industries. "Nowhere," the Committee wrote, "has the gulf between promise and fulfillment been of more serious consequences to the well-being of the common people than in the rural sector especially agriculture." After complaining of the lack of good organization and bad management and cautioning that steps should be taken to provide incentives for workers with specialized ability the Committee demanded "rapid progress toward a socialist society" and industrial development "geared to the socialist objective of increasing the proportion of means of production under socialist controls."

The assumption apparently is that failures in the Indian five-year plan are attributable in part to too few controls, too little planning, and too little emphasis on channelling major investment into the public sector rather than the private sector. Might not the truth be just the opposite - that there have been too many controls, too much planning, and too little emphasis on expanding investment in the private sector?

For four decades the Soviet Union has assiduously cultivated the idea that nationalism can only achieve its economic fulfillment by socialism. The Soviet Union itself is cited as the classic example of how a state in less than 50 years has moved from underdevelopment to super power. It is accepted almost without argument that this remarkable achievement could only have taken place under the auspices of an omnipotent state capable of directing the energies of its people to the areas of needed development. It is pointed out that even in the United States, when in time of war there are shortages and demands for national mobilization, the state must compel the private sector of society to comply with the demands of the state.

One can add to these considerations other factors which the leadership of many new states believes point toward socialism, rather than private enterprise, as the path for development.

The past experience of new states with private enterprise has not been happy. Too often colonies were areas of private exploitation. Too often even nationals of the newer states have followed the colonialist patterns of high interest, exorbitant profits, low wages, and the export of profits to numbered accounts in Switzerland or to high living at home and abroad.

New states are plagued by shortages of capital and trained personnel. They are excessively dependent upon world commodity prices. Strict state controls often seem to be the only answer to these problems.

Within new states there is a strong feeling that working for the government is more prestigious than working for oneself or for another. The government employee, whether he be a high ranking civil servant or a bus driver, acquires status and security not generally found in private employment. Thus there is constant pressure for more jobs with the state.

Finally, in these newer states there is a vigorous interplay between politics and economics. A new government, preoccupied with the need to make its people conscious of their nationhood and always in need of revenue, is likely to be sorely tempted to acquire as much control as possible over the means of production.

Despite these ideological, emotional, and practical considerations which push the newer states in the direction of socialism, there are compelling reasons for their leaders to take a long and careful look at some of the dangers implicit in a headlong plunge into the morass of state socialism.

Thus, impressive as the Soviet experiment has been, one cannot help but wonder if the economic development of the Soviet Union might not have been more phenomenal had it proceeded in a pattern which encouraged more private initiative. Recent Soviet failures in agriculture and housing, and lop-sided industrial development, might have been avoided or minimized. The per capita income of Soviet citizens might well have been higher than it is today. Recent Soviet

recognition of the need of incentives with a more personal appeal than "the good of the state" might serve as a warning to the newer states, as should increasing Soviet purchases abroad of privately developed manufacturing enterprises. There is a growing realization that "supply and demand" may be a more rational director of an economy than a PhD trained at the London School of Economics.

Also deserving a hard look are the experiences of the newer states themselves. A comparison between the economies of Indonesia on the one hand and Malaysia and the Philippines on the other, comes out plus for the states which have chosen to encourage private enterprise. A comparison between the economies of Ghana and Nigeria is equally revealing, as is a comparison between Burma and Thailand, and the Lebanon and any of its neighbors. Although there are many other factors that can be used to explain the uneven economic development of these states, it would be a mistake to ignore the fact that among these states which started their independence on a roughly equal economic base, those which have encouraged private investment and individual enterprise - the Philippines, Malaysia, Thailand, the Lebanon, and Nigeria - are all in better shape economically, and less dictatorial politically, than their neighbors who have moved in the direction of state ownership and one-party government.

It is not the purpose of this letter to explore in depth the concept that socialism may not be the best road to economic development as so many of the newer states seem to believe. Rather, the purpose is to suggest that this phenomenon bears careful examination by those Americans and foreigners alike who tend to equate rapid economic development with maximum state planning, controls, and investment in the public sector. While the experience of Europe after the war provides little of relevance for developing countries, on the larger concept of the efficiency of state enterprise as against the efficiency of private enterprise, there are lessons to be learned by comparing the recovery of Western Europe with recovery in the Bloc countries permeated as they were with state enterprise. Facts speak louder than words.

Aside from the fact that competition - the essence of private enterprise - and a system of rewards commensurate with what a man produces, other factors which suggest that private enterprise tends to be more productive of economic advancement and political freedom for the greatest number, include the following:

- 1) Parkinson's Fourth Law - a statement of which I do not have before me. In essence it is that the more people look to the state for employment, the more difficult it becomes to induce them to be efficient in their work and to be paid in accordance with their production. Thus, to the extent that a government is dependent upon votes, the greater the number of people on the payroll the greater the difficulty for the government to act in ways that may alienate the voter. This is in sharp contrast to the situation which exists in collective bargaining between private enterprise and labor, or which exists when a man's advancement is contingent upon what he does more than upon whom he knows.

2) It may also be noted that the more socialist the state, the more likely it is to be a one-party state. This arises from the fact that a government which owns the means of production wields not only political power, but economic power as well. Such a government has greater means at its disposal to maintain itself in power. Furthermore, strong opposition is likely to find itself forced to violence to seek redress from a self-perpetuating political and economic oligarchy.

3) A socialist-oriented state is under constant pressure to do what the people demand for their short term benefit and to dodge the hard economic decisions which may in the long term be of greater benefit to a larger number of citizens. While a private entrepreneur might not be willing to take a chance on making a profit by investing in a national air line, a television system, a steel plant, a sports stadium, or a glass factory, a socialistically inclined government is under less compulsion to refrain from investing in enterprises which may be non-productive in the sense of producing net profits.

This is not to say that there are no occasions when government should get into non-productive enterprises. Indeed, a TV network and other communications facilities may be essential to building a united nation. The point is that governments oriented toward doing for themselves the things which private enterprise would normally undertake, are governments susceptible of digging themselves into financial chaos - of which Indonesia and Ghana are good examples.

Governments of this type do not seem to realize that efficiently operated private facilities may end up paying large percentages of their net profits into the government coffers. And at the same time they may develop overseas markets and new products which will help the state with such troublesome things as balance of payments problems.

4) Many of the newer states are under the impression that private enterprise is a system of exploitation of one individual by another. They fail to realize that an individual in a government bureau can exploit just as effectively as an individual in private enterprise. These newer nations have failed to grasp two essential ideas; first, that when one man creates wealth some of its benefits flow into society as a whole; and second, that the state has the power, within limits, to control the flow of privately produced wealth and that such controls are a legitimate function of the state in promoting the common defense and the general welfare and in the exercise of its police power. These controls are appropriate so long as they do not destroy the incentive of the individual who has sought by his labor and enterprise to produce wealth in the expectation that a portion of it will redound to his benefit.

Take the case of the village maize project. When maize is planted by the individual he is likely to care for it. He may improve its quality with his earnings. He is likely to be willing to serve customers as long as they are willing to pay his price. But should the day come when his prices are excessive, all other maize being sold, or should he refuse to serve all customers without discrimination, there would be few who would insist that private enterprise in these circumstances should prevail over the state.

The bogeys that private enterprise, capitalism, and individual freedom often call up in the minds of citizens of the newer states are exceedingly scarce today. "Enlightened capitalism" is not a propaganda phrase; it is a fact. Where it is not a fact, the state has power to compel capitalism to be enlightened without at the same time substituting its economic judgment for the laws of supply and demand and the beneficent effects of competition.

The assumptions which underlie the belief that socialism is the best device to bring backward nations into the twentieth century should be examined with more care than has heretofore been the case. New nations and their leaders should not become the victims of slogans, false assumptions, or doctored facts. Neither should Americans. Private enterprise is not good simply because it is private enterprise; and socialism isn't good just because the Russians say it is. The proof of the pudding is in the eating. Most socialist states haven't eaten much yet.

Sincerely yours,


Carl Marcy

Received in New York June 4, 1964.