

REVIEW and OUTLOOK

Times Have Changed

"There is a school of thought that our economy has changed to such an extent that the free-market economy will no longer work well enough. In order to achieve stability, this school says, government must do much more to manage the private sector."

So said George P. Shultz, director of the Office of Management and Budget, in a recent speech. Times clearly have changed, he conceded, but the changes don't mean that the nation must abandon reliance on a free market.

For one thing, the changes haven't been as drastic as some of the doom-sayers claim. Mr. Shultz questions, for example, whether the business community's market power has expanded as much as some of its critics contend.

Actually, he says, "there is little evidence that the power of business has grown—has become more concentrated or monopolistic—in recent times. Studies of horizontal integration, which use concentration ratios and rates of return, find little evidence of a secular increase in this indicator of monopoly. Likewise, a study of vertical integration, which uses sales to value-added ratios, finds no evidence for a secular trend."

A few years ago, Mr. Shultz comments, fears were expressed that the newly fashionable conglomerates soon would come to dominate the U.S. economy. Why hasn't it happened?

"Antitrust enforcement was a factor," Mr. Shultz remarks, "but the free market itself provided the main cleansing force. The trend in business today is toward more competition, not less, and the successful conglomerates have often been the agents of this sharper competition."

Though Mr. Shultz doesn't go into it, some businessmen and others believe major changes have been occurring in international markets. Other nations (Japan is usually cited as No. 1 villain) don't play by free-market rules but instead impose all sorts of restrictions on imports and foreign investment.

As a counter-measure, say these businessmen, the U.S. should do many of the same things, imposing import curbs and other restraints on the working of private markets. International economies thus would be converted

into a sort of tit-for-tat exercise.

No one questions that other countries have sinned against free-market principles. The U.S., for that matter, is hardly blameless, with its existing curbs on imports of oil and other products and its barriers to the free flows of international capital.

Yet when an economic setup is in trouble, domestically or internationally, it hardly seems the wisest reaction simply to eliminate the system—replacing a free market with one that is totally managed. A more sensible step would appear to be to seek to move the system toward greater freedom.

In the international sphere the U.S. for years had been leading the world toward increased trade freedom. If the U.S. now joins with protectionists elsewhere, totally managed world markets don't lie too far down the road.

No nation will really benefit from that sort of approach. Controls and red tape will limit total trade, and thus economic activity and income. For every advantage an individual industry gains in this warfare, one or more industries in the same country will be damaged by retaliatory actions of other nations.

In the domestic economy there will be a continuing need for wise antitrust enforcement. As Mr. Shultz says, moreover, "government does have the responsibility to remove artificial props to wages and prices when the free market system is abused."

Mr. Shultz doesn't expand on that thought, but one logical move would have been elimination, and not merely temporary suspension, of the Davis-Bacon Act that requires the government to support construction industry wages. The existing import restrictions, the clumsy farm price support system, inefficient transportation regulation—the list of artificial federal props is a long one.

We have no way of knowing when or whether the government will move against any item on the list. Yet Mr. Shultz clearly does see that, in these changing times, the proper direction for movement is not toward increased federal control but toward greater freedom.