

Introduction

Championing Economic Liberty in a Time of Crisis

By Fred Smith

Rahm Emanuel, President Barack Obama's incoming chief of staff, recently commented: "You never want a serious crisis to go to waste." Now, we at the Competitive Enterprise Institute are at least as concerned about the nation's current economic crisis—but we are even more concerned about bad policies that may come out of this crisis.

Still, Emanuel's point is valid. Crises expose unexpected—and often misunderstood—weaknesses in current policies. While our statist friends see this as an opportunity—indeed, a duty—to expand the size and scope of government, we at CEI see it as a chance to challenge the entanglement of the private and political spheres.

Markets have appeared less resilient and less disciplined than we had hoped—but not because of a *laissez faire* ideal. The troubles besetting America's financial sector are best understood as a tragic example of the inevitable consequences of the "mixed economy"—an ungainly mix of government mandates, regulations, subsidies, private sector rent-seeking, and socialization of risk.

The mixed economy model seeks to advance utopian social goals by harnessing the profit motive of capitalism. Thus, we see this crisis as an opportunity to dramatize the disastrous consequences of this collectivist approach, and

to encourage policy makers to rethink the drift away from sound principles over the last century, to restore a world of freedom and responsibility—the essence of truly free markets.

Indeed, America's success has been based on an adherence to sound principles: a government limited to its appropriate sphere—protecting property rights and the nation, enforcing the rule of law—and a voluntary sector enjoying the greatest possible ambit for both economic and non-economic exchanges.

Sadly, we have drifted far from those principles as "progressive" ideas have gained intellectual ground. This has led policy makers to push private enterprise to "do good"—voluntarily, if possible; coercively, if necessary. And the "good" is defined by the intellectual class, which has long championed bigger government.

Unlike in Europe, where socialists sought outright government ownership of industry, American progressives sought to leave in place the illusion of free markets, while imposing on businesses an array of "social" mandates to be enforced through taxes, regulations, and subsidies.

This had the effect that, in Europe, the costs of statist policies were apparent, and the blame for failure could be easily attributed to government. In contrast, the American regulatory welfare state hides its costs by shifting them

on to businesses and consumers, so its failures are more likely to be attributed to the private sector. In America, these factors make it more difficult to reign in the regulatory state, and to discipline its excesses. Yet to do so is necessary now more than ever.

Civilization is the slow process of creating the institutions that allow greater freedom, allowing more of mankind to engage in voluntary exchange with others. For many years, America was the leader in this effort. We pioneered in expanding private property rights to all citizens—including subsurface mineral rights, which allowed entrepreneurial activity to move beneath the Earth, making possible the rapid growth in the mineral and energy sector. And as science found ways to harness the electromagnetic spectrum and the airwaves, those too began to move toward private ownership.

However, policy makers in the early part of the 20th century rolled back many of these efforts as progressive ideas supplanted those of freedom and responsibility. Voluntary exchange was compromised by America's regulatory welfare form of central planning. Gradually, the boundary between government and voluntary exchange weakened, and it became common for policy makers to seek to combine maximizing profits with pursuing political goals, such as subsidizing politically preferred constituencies.

In the financial arena, an example of this is the creation of government sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac—nominally private profit-making firms that enjoyed an implicit government guarantee against losses. Those guarantees allowed the GSEs to dominate the low-risk sectors of the housing market, pushing private lenders into higher risk investments. In addition, politicians insisted that the GSEs make home loans to in-

dividuals with weak credit scores. Government could have honestly sought to increase home ownership for the poor through direct subsidies, but that would have made the policy's costs transparent. Instead, the carrot and stick of subsidies and regulations, helped hide the costs. The resulting confused mix of politics and business became one of the primary factors behind the current financial crisis.

Now a new Democratic administration comes to Washington, promising “change we can believe in”—and that could be a good thing. The last few decades—of over-spending, over-regulating, and over-intervening—call for considerable change. Only a few years ago, a Republican team roared into Washington with its own ambitious reform agenda—and soon became mired in the bogs of Washington. If the Democrats replicate their Republican colleagues' mistakes, their honeymoon will be brief.

Real change is needed. The economic emergency measures advanced by the Bush Administration have done little to alleviate the financial—or any other—crisis. It should be clear by now that such top-down solutions do not work—and are even unlikely to produce any political gains as economic pain turns public opinion sour.

CEI hopes to work with the administration and others on these issues. We hope to share with the new Congress our ideas on how to jump-start the nation's economic engine—the American people's entrepreneurial spirit. There is much to do.

Many sectors of the economy—electricity, telecommunications, airlines, and other network industries—have been hampered by botched, partial deregulations. The solution is not to revert to state control, but to truly liberalize.

We also hope to work with the new Congress to promote the health of the American people by reforming the Food and Drug Administration to speed the process of bringing new life-saving drugs to market.

With major change come major risks. As a Louisianan, I am well aware of populism's something-for-nothing allure. Mistakes made in the name of "helping the little guy" can hurt everybody in the long run, by creating long-lasting economic damage. Proposals for one-size-fits-all mandates in areas like wages and prescription drugs threaten to undermine the dynamism of America's market economy—and thus hurt those whom such measures are supposed to help. We

will happily work with lawmakers of both parties to oppose bad ideas like those.

During the last Congress, Republicans massively expanded the federal government—and the voters punished them for it. Now the Democrats have been entrusted to set aright the ship of state. In a globalized world, they will retain their majority only by advancing a pro-growth agenda.

A revitalized economic liberalization program must be a part of that agenda. This volume offers policy reforms to lawmakers, of all parties, to help boost economic and personal liberties. It will be an interesting few years; we plan to be a part of the debate.