Reinvigorating America’s Commercial Republic

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COMMENTARY

The left once possessed a near-monopoly on the critique of economic freedom. The bourgeoisie exploited the proletariat, according to Karl Marx’s classic condemnation, and the profit motive degraded property owners even as labor produced little for the laborer but physical misery and spiritual alienation. Few on today’s left advance Marx’s full-blown attack on capitalism. But from out-and-out socialists to pragmatic progressives, the contemporary left typically makes a political priority of harnessing state power to manage the economy and redistribute resources as dictated by progressive interpretations of social justice.

These days, influential voices on the New Right are mounting their own harsh criticisms of free trade while advocating greater government intervention in the domestic economy. Conservative discontent with the free market, however, is not new. Traditionalist Russell Kirk in “The Conservative Mind” (1953) and neoconservative Irving Kristol in “Two Cheers for Capitalism” (1978) highlighted the tension between preserving tradition and the innovation, mobility, and disruption of settled practices spurred by free markets. New, though, is the public-policy prominence that today’s “national conservatives” and “common-good conservatives” give to curbing economic freedom. By expanding the state’s role in supervising economic affairs, they hope to assist sectors and communities hit hardest by globalization, protect families from the market's vagaries, fortify morality, and promote Christianity.

According to Samuel Gregg, progressive and conservative critics alike have failed to consider the facts in their fullness and to take into account the public interest in relation to constitutional principles and 21st-century exigencies. In "The Next American Economy: Nation, State, and Markets in an Uncertain World," Gregg exposes the weaknesses of the arguments against free markets. He reconstructs the classical case for economic freedom built around property rights, limited government, rule of law, entrepreneurship, competition, and free trade. He demonstrates that free markets not only foster opportunity and growth but also sustain civil society and human flourishing. And he argues that American constitutional government and the nation's interest in security, individual liberty, and prosperity are best served by rededication to the commercial spirit inscribed in the nation's founding.

A fellow at the American Institute for Economic Research and at the Acton Institute and a prolific contributor to public debate, Gregg excels at the fading but indispensable discipline of political economy. Rejecting the artificial boundaries of academic discourse, his book examines economic questions as they arise in real life – enmeshed with history, morality, political ideas and institutions, and foreign affairs. In contrast to academic social science, which often lacks relevance to – and occasionally takes pride in its remoteness from – public policy, political economy aims to contribute to the nation's preservation and improvement. The crucial practical question concerning the U.S. economy at the present juncture, Gregg maintains, is whether to continue down the road to "state capitalism" or recover the nation's free-market traditions.

By state capitalism, Gregg means "an economy in which the government, often with the aid of experts and technocrats and sometimes in partnership with different interest groups, engages in extensive interventions into the economy from the top down." State capitalism disavows radicalism: "The goal is not to extinguish private property and free exchange," Gregg emphasizes. "Rather it is to shape and even direct many activities within the economy through state action to realize very specific economic and political objectives." Notwithstanding its professed restraint, he contends, state capitalism diminishes citizens' freedom to plan their lives, care for their families, and maintain their communities. It also weakens the growth on which the next generation's opportunities and a robust national defense depend.

The best-known form of government intervention in the U.S. economy is protectionism. Once a pet project of pro-labor Democrats, it has become popular on the New Right as well. Protectionism imposes duties on, or limits, specific classes of imports while subsidizing select domestic industries. The purpose is to shield established American businesses, especially manufacturing, from foreign competition; foster new industries; and safeguard workers' wages.

Gregg's review of the historical record, however, reveals that protectionism "does not serve the common good of Americans as consumers, as workers, or as a nation." For example, contrary to the oft-repeated claim that protectionism played a major role in the country's development into an economic superpower, America emerged in the late 19th century as the world's largest economy despite protectionist policies. The nation's prosperity, Gregg writes, "was driven primarily by population growth, capital accumulation, and entrepreneurship." Moreover, "productivity growth was more rapid in those sectors of the 19th-century US economy whose performance was not directly connected to the tariff."

Over the short term, protectionism may benefit certain groups and sectors. But, argues Gregg, it raises costs for consumers and businesses while diverting resources and labor from their most productive employment, leaving the nation as a whole worse off over the intermediate and long term.

A second form of government intervention – also embraced by the New Right – is industrial policy. This involves state investment in, and management of, specific businesses and industries. The principal problem, argues Gregg, is the presumption undergirding industrial policy "that political leaders, civil servants, and technocrats possess the knowledge to comprehend all the technical details, possible methods of production, the range of incentives, actual and future prices, unintended consequences, and alternative uses of resources (to name just a few sets of information) that they would need to decide accurately the most optimal allocation of resources and course of action."

Indeed, industrial policy has a bad track record. Proponents cite China's tremendous growth over the last 40 years, Japan's meteoric rise from the 1960s to the early 1990s, and America's own history of industrial policy going as far back as the 1790s, when then-Secretary of the Treasury Alexander Hamilton supported the Society for Establishing Useful Manufacturers. The data, Gregg contends, tell a different story. In these supposedly textbook examples, industrial policy's impact has at best been exaggerated. Often, it has impeded growth.

Gregg offers six reasons why industrial policy is unlikely to yield better results going forward. First, government officials lack the experience and training to identify and assess opportunity costs. Second, state bureaucrats do not learn from their investment errors because they do not bear the costs of their poor decisions. Third, government decision makers are highly vulnerable to capture by political interests. Fourth, industrial policy generates market inefficiencies by distorting price signals to businesses. Fifth, government intervention presupposes market failure while overlooking the detrimental effects of government action such as high tax rates and excessive regulation. Sixth, the benefits of industrial policy are hard to measure because a variety of factors contribute to economic growth.

“Stakeholder capitalism” is the name for a third justification for government intervention. The official and longstanding view of most CEOs and corporate boards has been that a company should deliver value understood in terms of profit and growth for *shareholders*. According to the new fashion, companies should yield value for *stakeholders,* that is, all those affected by the business. Stakeholders include not only shareholders who have bought a portion of the enterprise but also customers, employees, suppliers, local neighborhoods and communities, and, in principle, other nations and ultimately all the planet’s inhabitants. Stakeholder capitalism, moreover, generally redefines value to encompass the progressive agenda, not least diversity, equity, and inclusion imperatives that reorganize the workplace based on race, ethnicity, and gender.

Gregg points out that well-managed and prudent companies already understand their interest in treating employees and business associates with respect, giving back to communities, and shouldering civic responsibilities. It is another matter, however, to insist that companies subordinate the pursuit of shareholders’ value to the advancement of a partisan political agenda imputed to an indefinite and globe-spanning class of stakeholders. Stakeholder capitalism, in Gregg’s view, impairs businesses’ signal contribution to the public interest, which is to provide desirable and affordable goods and services while offering a reasonable return on investment.

In restoring appreciation for entrepreneurship, competition, and free trade, Gregg underscores that free enterprise, too, has costs as well as benefits. He recognizes the selfishness and hedonism that capitalism stirs as well as the creativity, discipline, and responsibility that it encourages. He underscores the importance of targeted regulation; the propriety of measures to assist the poor, the sick, the unemployed, and the elderly; and the priority of national security considerations. While inevitable and sometimes salutary, restrictions on freedom, he stresses, should always be made within the framework of – not against – free-market principles.

A commercial republic coheres with America’s constitutional commitments to individual liberty, limited government, and equality under law and fortifies the nation’s security, freedom, and prosperity. Accordingly, free market principles offer a broad base for uniting conservatives. If they play their cards well in the defense of economic freedom, conservatives may also attract independents and perhaps even independent-minded progressives.

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