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What Is a Conservative American Economy?

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I.

IF IT IS ASKED: "What is a conservative American economy?" we seem immediately to face a paradox. Some hundred years ago the liberals in Europe were (and still are) the great advocates of *laissez faire*. Today in America it is the conservatives who propose a free market, or a free-enterprise system, to distribute the products of industry. Over a hundred years ago the English Tories were taking the lead in urging laws for the control of manufacturers and for the protection of workers, especially children. Today in America it is the liberals who advocate the control and regulation of industry, almost to the point of making themselves indistinguishable from moderate socialists.

However, the paradox of political regulation of the market must be balanced against continuity in philosophy. If one should ask a Belgian or a Swiss "liberal" what he stands for, he would likely indicate that he is anticlerical and that he advocates, so far as it is politically possible, a free market economy. In philosophy, he would return to the French Revolution and the age of the enlightenment; that is, he would be anti-Christian in attitude, and he would make "science" the total basis of his thought. American liberals have with few exceptions been supporters of French revolutionary thought. There is a line of continuity running from

Condorcet through John Stuart Mill to the late John Dewey. In this sense, pragmatism has become the hallmark philosophy of the liberals in this country.

But there are also shifts and turns in the emergence of American attitudes toward economic organization. The Jacksonians defended *laissez faire* and the economic liberalism of the last century against their party opponents. Part of their motivation was to undermine the Hamiltonian program, a program which may be regarded as a kind of Tory or conservative management of the economy. Jacksonian democracy, thus, stood in contradiction to the ideas of Mathew and Henry Carey and List, who advocated a form of "economic planning." It is clear, however, that a transition took place, for after the Civil War the business community became self-consciously *laissez faire*, while the regulation of trusts or monopolies became part of the progressive and populist battle cry. David W. Noble has suggested that men like Henry Demarest Lloyd, Richard T. Ely, and Simon Patten began to define "liberalism" in social and collectivist terms during the 1880's. The new definition of liberalism was becoming popular in younger academic circles by 1900.¹ Thus, the great transition in the use of the terms "conservatism" and "liberalism" took place.

¹ In a personal letter from Professor Noble of the University of Minnesota.

The contrast between the use of "liberal" in the United States and the rest of the world is impressive. Conservatives in Europe look back to their nineteenth-century tradition — British, French, German, or otherwise — whereas in America they have adopted much of the philosophy of economic liberalism. Liberals in Europe are much like conservatives in America. One profound reason is perhaps the fact that America never had an eighteenth-century aristocratic class. Nor did we ever develop the kind of *bourgeoisie* that emerged in parts of Europe — narrow, of great wealth, highly integrated with the professions, and concerned with service to the state. The French *bourgeoisie*, for example, was a very different class from that which created the new capitalist society in Holland, England, and America. It was a class that stood between the aristocrats and the proletarians, and the supposedly central issues of European politics did not find a forceful counterpart on the American scene. But as industrialism marched forward in America, and as the left-wing attack on it emerged, it was natural for business to adopt the classical liberal position as a defense against new legislation. Conservatism became the defense of the free market theory, though there was much governmental assistance to business, as William Graham Sumner so wrathfully pointed out.

The conservative philosophy in America has usually been theistic in overtones, though a man like Carnegie was a follower of the agnosticism of Herbert Spencer. Liberal philosophy, however, moved easily from the deism

of the eighteenth century into the scientism and the pragmatism of the twentieth. The conservative in philosophy in America has generally stood for certain ideas more than the defense of existing or historical institutions. The conservative, by and large, has sought to discover a pattern in history; he has been distrustful of eighteenth-century enthusiasm for the goodness of human nature; he has believed in a moral order that is more than subjective prejudice; he has believed that government should be limited; and, finally, the conservative has been a defender of property, very much in the sense that Aristotle defends it in his *Politics*. Conservative philosophy has much in common with the Christianized version of Aristotelianism.

II.

In general, the conservative in practice does not discuss "the economy"; rather, he talks about the solution of economic problems, sometimes through the government and sometimes outside and beyond any political action. The conservative often makes economic and political decisions without even asking what functions the government should *theoretically* undertake. The discussion of high-level theory is a matter for leisure time, not for the immediate balancing of economic pressures or for reaching a solution that will be accepted by those who are affected. Yet tension between the political or bureaucratic leader, on the one hand, and the businessman, manufacturer, or financial leader, on the other, is always present. The pattern of solution and the immediate objectives of policy determine

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II.

In general, the conservative in practice does not discuss "the economy"; he talks about the solution of economic problems, sometimes through government and sometimes outside government beyond any political action. The conservative often makes economic and political decisions without even asking the question whether the government should *actually* undertake. The discussion of high-level theory is a matter for another time, not for the immediate balancing of economic pressures or for finding a solution that will be accepted by those who are affected. Yet the tension between the political or bureaucratic leader, on the one hand, and the businessman, manufacturer, or financialist, on the other, is always present. The pattern of solution and the immediate objectives of policy determine

the existential and personal significance of any ideology. It is experience, and not a doctrine, that is the life of the conservative economy.

The conflict between government in business and the private trader is old in the United States. Early in the nineteenth century, for example, the government established factors and factories for the Indian trade, and private trade with the Indians was prohibited. By 1822, the private traders managed to get the factor system abolished, and it was a victory against the government monopoly of a certain kind of business.² Practically always when the business and industrial class has shown energy and a spirit of business adventure they have tended to win against designs to increase the functions of the government. In the contrary situation, the government has tended to step in with subsidies and grants, and has at times directly undertaken manufacturing and trade activities.

If one observes congressmen and senators, for instance, certain tests of discrimination between the public and the private economy begin to appear. All political conservatives concede that government can do many fine things for people, but there are some criteria that must be considered. In 1882, when Herbert Spencer visited the United States he denied the charge that he was against government function. After asserting that *laissez faire* was a misunderstanding of his position, he said: "Everywhere, along with the reprobation

of government-intrusion into various spheres where private activities should be left to themselves, I have contended that in its special sphere, the maintenance of equitable relations among citizens, governmental action should be extended and elaborated."³ Conservatives insist, therefore, that governmental action must take place within the context of a sound financial policy; that taxation can be too high, since it can be depressive; and that the budget should be balanced. Again, government should not compete with private industry when a going concern is involved. Administrative procedures should be comprehensible, and the general liberty of the subject should be respected. In general, the national government will appropriate money to save homes, especially in self-liquidating projects, and it will appropriate money to save communities, and at other times than in disaster. Thus, it is not "creeping" socialism if the government keeps up its end of honest obligations, such as the building of schools in a "Federally impacted" area. Government credit may be readily extended, but the conservative would say that when it is extended for the benefit of private individuals, it should bear the interest of the public debt and the capital involved should be subject to repayment as in private loans.

There is, however, a strange situation in American public life. A congressman who believes himself to be a conservative will hardly say so in public,

² See Aloysius Plaisance, "The Arkansas Factory, 1805-1810," *Arkansas Historical Quarterly*, Vol. XI (Autumn, 1952), pp. 184 ff.

³ E. L. Youmans (editor), *Herbert Spencer on the Americans and the Americans on Herbert Spencer* (New York: D. Appleton, 1883), p. 18.

though often privately and in intimate conversation he will speak of himself as a conservative. It is, however, common for congressmen to think of themselves as conservatives. They believe free enterprise is essential, that it expresses the American tradition of freedom and responsibility, and this is so even though most congressmen have not been businessmen before entering politics. Their conservatism is not primarily related to religion, though there is sensitivity to reaction of particular religious groups when they are going to be affected by political action. Thus, at all costs a religious struggle over public policy will be avoided. Part of the conservative spirit, again, is enforcing public responsibility against those who benefit from the appropriation of public funds. The effort continues, though the complexity of bureaucratic procedures often makes it impossible to find out who is actually responsible for a particular public decision.

It has been a common position in the United States to urge legislation for the preservation of competition. Competition has not been regarded as a kind of law of the jungle; rather, properly regulated, it is the essence of civilized behavior. Yet at the same time it has been agreed that unregulated competition is likely to destroy the very private industries that social policy seeks to defend. There is regulation in the public interest, as that concerning bidding on government contracts. Conservatives have sought to solve the problem of plenty without accepting monopoly.

III.

The free market economy can be

defined in such a way that it has never existed. But granting that any economy has to work and that government must in emergencies see that it does, the conservative has believed during the last 125 years that the aim of government should be greater freedom for the market which regulates the distribution of goods and services. There must be freedom from any private domination of the market, as in antitrust laws, but there must be freedom likewise from government control. The trend and drift of public decision should be toward freedom, therefore, rather than toward a greater government direction, as has been advocated in the literature of socialism. Actually, we may suppose, there has never been any pure system of *laissez faire*, or a system in which the free market and competition regulated completely the distribution of goods and services. Nor has there ever been a socialist system in which there was no free market whatever. In this sense the conservative defense of the free market must stand on its record, just as socialism must, rather than on the blueprints of the ideal society.

An attack on the theory and practice of the planned economy has been one of the central ideas of conservatism in our time. However, the communist, socialist, and liberal minds have increasingly turned to the directed economy as the solution of the problems they face. Actual economic performance has not had much effect on the argument, for the historic defenses of the free market have promised more than has been attained, just as the literature of socialism from another generation seems remote indeed from any

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economic actualities in our time. No economy is going to make everyone happy; relative success is all that can be expected from a political or an economic arrangement.

A conservative will say that a planned society must be administered by some person or persons. This means that the quality of these individuals becomes a most important issue. The planned economy is a pedagogic state, a state that attempts to teach people their duty, and to explain to them what they should not do. It is a morally organic state in which the community stands superior to all individuals except those who are administrators or instructors in civic morality.

For a little more than a century people have been conscious of the issue of bureaucracy, red tape, and waste. To the conservative such are the consequences of the planned economy.⁴ Defenders of administration indicate that great progress has been made in the improvement of the quality of civil servants and in the efficiency with which government operations are conducted. Details make the substance of public affairs, and the handling of details is one of the central tasks of the bureaucracy, though beyond the detail the bureaucrat is supposed to see in an ideal sense the larger questions of public policy. Conservatives who assisted in building the bureaucracy from the days of absolutism on in Prussia, France, and England have believed in the political neutrality of the civil servant. The conservative might also

⁴ See A. W. Gouldner, "Red Tape as a Social Problem," in R. K. Merton and others, *Reader in Bureaucracy* (Glencoe, Ill.: Free Press, 1952), pp. 410 ff.

say that when a bureaucracy ceases to be neutral it may and must be dismissed. Yet when conservatives have come into power after their defeats since the French Revolution they have often faced *fonctionnaires* put into their positions because of their support of the liberal or revolutionary mind. Tenure, status, and hierarchy are used to support the ideologically focused civil service against the dismissal that the conservative may feel is essential if neutrality is to be attained in the operations of the government. It is not remarkable, then, that present-day conservatives turn to the legislature — to the Congress — in their efforts to control the civil service.

Although there has been some communist infiltration of most American civil service organizations, the ideological position many conservatives have generally combated is some form of Keynesian economics, for it is this form of economic theory particularly that has been used to support the idea of increased economic planning, both to control unemployment and to direct the inevitable course of inflation. Wherein are Keynesians radical? Though a skillful conservative might use Keynes, the "school" is left-wing. Keynes disciples, according to Schumpeter, see "an indictment of private thrift and the implications this indictment carries with respect to the managed economy and the inequality of income." And the defense of "savings" has long been the last pillar of the bourgeois argument.⁵ According to

⁵ J. A. Schumpeter, *Ten Great Economists* (New York: Oxford University Press, 1951), pp. 288-89.

Schumpeter, the Keynesian revolution consisted in large part in the rejection of saving and the personal element in capitalism. It could also insist that the unequal distribution of wealth was the ultimate cause of unemployment. Many a conservative might admit that various Keynesian devices had to be used in a period of war and during the revolutionary disintegration of the last forty years. But the conservative making this admission might also say that the Keynesian system and its remedies are easily overdone.⁶

IV.

The conservative economy will move on toward the strengthening of management as the new and effective force in conservative economic freedom. No easy solution awaits any political leader in a time of crisis, such as the present. Yet it is possible to set forth the kinds of reform a conservative might advocate in the maintenance of a free market economy. Some of the most powerful of such statements have come from Edwin G. Nourse, as, for example, in October, 1949, just as he was being dismissed from the Council of Economic Advisers. There is promise in America, he said, of a greater productivity than in the past; there can be greater employment, and greater purchasing power, under a system of free competitive enterprise complemented by prudent but vigorous public enter-

prise and sustained over the years with only moderate ups and downs. However, in whatever direction we may look — toward labor, management, farmers, or the government—there are practices which tend to undercut the principle of a free enterprise system. These practices are not always directed ideologically toward such a result; rather, they are directed to such an end by the consequences they entail. Our dream of progressive increases in production and well-distributed wealth can fail unless a free market system is corrected and reformed in the conservative spirit which gave rise to the system in the beginning.

Labor fears the increase of production and it restricts output, as in the coal industry, to what it thinks the market can absorb. But in the process, the market for coal itself is gradually restricted and turned over to competing types of fuel. Conservatives have often said that any system which restricts work is bound to fail. If standards of living are to be raised out of enlarged production, increased efficiency cannot always be balanced against diminishing effort in the labor force. In general, it may be said that technological advance has kept ahead of concessions to labor, but the situation could easily have been otherwise. Americans have not ordinarily objected to an increase in wages, but they have believed that the proceeds of greater productivity must be divided between the various factors of production, even including increased profits to those who own businesses. Actually, the stockholder now appears to be at the bottom of the list in receiving the fruits of investment.

⁶ John Jewkes, in his *Ordeal by Planning*, (New York: Macmillan Company, 1948), p. 78, has said: "There is a very serious danger that the second half of the twentieth century may be the age of inflation just as the first half was the age of mass unemployment."

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Any conservative theory of the economy will focus on the qualities of management. Capitalistic management is supposed to be venturesome and energetic. A cautious, uninspired management can mean the stagnation of the economic system. Nourse asserted that he was filled with apprehension when he saw management choosing the costs of banked fires and the demoralization of the delicate adjustments of supply lines and distribution patterns rather than a capitalistically venturesome re-examination of their practices of accounting and their theories of price-making. If one is a capitalist, he must on occasion face the possibility of loss. But he can also turn to the mysteries of the cost accountants and let them determine the level of operations and the kind of price that must be charged for the commodities produced by a given industry. The French have called the stagnant spirit of management "economic Malthusianism." Management might add that risk must also be encouraged by the government, and that policies in taxation can help bring about a management more concerned with its own security than with the frontiers of business adventure. In other words, taxation policy must allow people profits when they have taken risks. The pressure toward equality is such, however, that it is always popular to take away from management the greater gains it may make through energy and skill. Often, likewise, the profits of corporations are considered almost solely in terms of the absolute number of dollars that eventually are tabbed as profit, rather than the proportion or percentage of the investment

or the transaction involved. Much of the confusion and difficulty of management arises from the confusion about the meaning of "profit." Profit is an accounting concept, and it means one thing to the accountant and the tax collectors (who are also accountants) and another to the average citizen. The citizens think of profit as money that is spendable, but the tax collector often deals with profits that exist only on paper.

It is often said that the pressure group dominates American politics. There are thousands of pressure groups, and obviously labor and management are among them. But the farmers are also listed among the powerful pressure organizations that govern the course of politics. Nourse was not willing to believe in the wisdom of much of our agricultural policy. Farmers demand stimulative prices even though the government has accumulated gigantic surplus holdings; the government has paid subsidies out of Federal deficits; and it has imposed production allotments and marketing quotas. On the other hand, there is no realistic chance to alter the system greatly, since it has become part of the political system. It may be, and it seems that many sober minds are working in this direction, that minor changes may be made and that the system may be gradually redirected toward a free system of agricultural enterprise.

Further, Nourse could not approve of the fiscal habits of the national government. Only disaster could come from deficits continued as a governmental way of life in a period when production and employment have been

high, instead of putting the fiscal house in order and husbanding reserves to support the economy if less prosperous times should overtake it. Fiscal policy is clearly one of the areas in which the conservative is separated from the liberal. For the liberal tends to be a "Keynesian"; he thinks of the "management" of the public debt and the use of the debt and taxation as means of control and direction of the economy. A conservative position drifts back inevitably to the idea of a stable monetary order, in which over the years the budget is balanced, or surpluses are used for the retirement of debt. And in any case, stability in the monetary system means that the repayment of the debt is finally made in much the same purchasing power as that in which it was first issued. Moreover, many conservative minds would insist on a more effective gold standard. Fiscal stability is associated with the protection of property, and the attack on property carries with it revolutionary ideas about the "management" of the public purse.

So Nourse concluded that if we are to maintain the march of economic progress, we must individually and as groups, in private business and in politics, display industry, prudence, and self-discipline, recognize that we cannot get more out of the economic system than we put in, that collective bargaining in good faith and on solid facts is the road to a workable distribution of total product, and that monetary and fiscal tricks have no magic power but are, rather, a slippery road to misery.

These proposals amount to a vast

and systematic reform of the American capitalist system. They amount to a reform of the political habits of the American people, and they suggest losses of privileged position to many of the people in pressure groups. However, most of the people engaged in the practical analysis of the functioning American system seem willing to settle for a good deal less in the way of reform. There are many economic leaders who feel that the system as it is can be made to work effectively for economic progress. Such analysis is the type engaged in by industries, in their predictions of economic activity especially, and by financial institutions which specialize in the analysis of the current economic situation.

We face a paradox. Business economists, such as those in the McGraw-Hill organization, have argued that the distribution of income in the United States has become more equal during the past twenty or more years, so much so that it is "one of the great revolutions of history," and a new and salaried middle class has been created. Yet it is obvious that enormous amounts of capital investment are necessary if American industry is to continue its rise in productivity. Business economists have insisted that the share of national income going to profits is not keeping up with the shares that go to others. What conservatives face is the constant re-examination of the economic system. Capitalism as a dynamic system requires the constant re-creation of leadership, investment, and a system for the distribution of the shares of industry. Basically, the conservative must defend the existence of

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profits; he must defend a system of taxation that will encourage investment; and he must defend a system that will grant management the right to make significant decisions in the conduct of its business.

V.

The debate on what a conservative economy is differs in Europe and America. It is clear that in those European countries where the free market has returned after the war, there has been a greater-than-normal increase in national prosperity. Liberals on the Continent are mostly those who favor a free market economy and anticlerical legislation. In no country in Europe are they in a parliamentary majority, nor have they been for a long time, but the influence of the liberals on economic, educational, financial, and religious policy has been profound. On the other hand, the Christian parties that have been either majority parties, or very strong in parliament, have been in effect the conservative parties. Christian parties have taken a middle-of-the-road position, which has meant that they have not been opposed to the liberal free market system when they thought it possible to restore it. In Germany, for example, the Christian Democratic Union has been the majority party, and it has restored much of the free market system, with an ensuing rise in German prosperity. The defense of private property and the freedom of business so far as it seems possible have been principles of the Christian parties in their war on socialism, communism, old-style anticlerical

liberalism, and the monarchists and neo-fascists as in Italy.

In America, the concept of "neo-capitalism" begins with the idea of the freedom of the going concern, and the belief that government should not interfere with its legitimate freedom. In Europe, owing to both the Christian and the socialist traditions, the discussion may begin with a defense of the right of a worker to organize and to earn a wage that will support him and his family at a reasonable or frugal standard of living. Industry must pay such wages, and public policy must assure the rights of the human being. In America, however, our laws go less far in this direction, while the trade unions and the practice of a high-wage and high-productivity economy make such assurances possible. Fringe benefits, including medical services, for example, continually expand, and many feel sure that eventually there may be some kind of guaranteed annual wage paid in American industry.

American capitalism does not correspond at all with the Marxist idea of capitalism. For example, "social security" for American railroad employees is more advanced than under socialist regimes. This we call capitalism, and the policies of enlightened management and labor. European socialists, of course, are unwilling to admit that such benefits and such evolutionary reforms in a free economic system can take place without the political and legislative compulsion of the left-wing political parties. They are determined to picture American capitalism as it was immediately after the

Civil War; and any freedom on the part of management to make significant economic decisions is purely and simply tyranny. Such a tradition makes it almost impossible for the European to understand the United States, for the picture of neo-capitalism must be regarded by them as a distortion of American propaganda.

VI.

Some conclusions should be indicated, bearing in mind that a general view of a conservative theory of the economy is being sought.

(1) There has been in the United States a change in the meaning of liberal. It has been used to describe the policies of left-wing and progressive groups, thus making it impossible for economic conservatives to use it. On the other hand, the word conservative has not in fact taken the place of "liberal," though liberal in Europe is used to designate policies which are considered in fact to be conservative in the United States.

(2) This change in the meanings of liberal and conservative, and especially the unique use of "liberal" in the United States, has come about through complicated historical situations. There was no formal aristocracy in America, and the customary European three-cornered conflict between aristocratic-bourgeois-proletarian groups did not develop in this country.

(3) Conservatives in the United States have taken a rather pragmatic or "practical" attitude toward governmental function in relation to the economy. Congressmen (that is, the political class generally) and management ac-

cept a very considerable governmental regulation, while at the same time they favor as far as possible a free-enterprise economy.

(4) Conservatives in general seek to maintain a traditional fiscal system. They desire to have a fiscal system that is not a deterrent to business development, capital accumulation, and profit. Under systems of heavy taxation, the conservative in management would ask for reasonable profits after taxes. Often, such views are expressed by demands for a balanced budget.

(5) Ideological positions that favor the planned economy are objectionable to conservatives. There is specific objection on this ground to socialism, communism, and the liberal inclination to favor administrative or bureaucratic planning.

(6) In contrast, the conservative has favored an economy in which management has a significant range of economic decision. Management is supported as the dominant force in what has come to be called "neo-capitalism." It is quite impossible for conservatives and liberals to agree on the existence of monopoly in particular situations.

(7) Conservatives will favor, at least in theory, reforms in the economy that will tend to strengthen freedom of the going concern and the free market generally. These reforms would tend to weaken the favored position of some pressure groups, such as agriculture, labor, and the administrative system or civil service of the modern state. Such reforms may have in mind the restoration of the risk-taking function of management in its economic activity.