Clipping of Note NUMBER 66

# Everybody Wins In Free Enterprise

THE nature of free enterprise is such that everybody concerned with it wins. To understand how this can be one must understand the economy of exchange. If Mr. A has a piece of apple pie but prefers banana pie and if Mr. B has a piece of banana pie and prefers apple pie, each can exchange a piece of pie which he values less for a piece of pie he values more. Both participants in the exchange have gained.

Before the exchange took place, there was an evaluation at the point of exchange by each of the participants. If either person had concluded he would not have profited, an exchange would not have taken place. The reason that everybody wins in free enterprise is because of the evaluation at the point of exchange.

Suppose that, in a system of free enterprise, there are a number of competing private concerns making potato chips. In this system, let us consider an individual concern in light of the economy of exchange explained above.

A farmer who has more potatoes than he needs may seek to exchange his potatoes with the potato chip concern for cash. Before the exchange will take place, there is an evaluation at the point of exchange to determine the prospective advantage for each person. If an exchange takes place, it is prima facie evidence that each gets out more than he puts in.

The workman who seeks employment with our potato chip firm will not accept employment unless he determines through an evaluation at the point of exchange that the burdens of working are more than offset by the advantage of the wages and other benefits he receives.

CONSIDER now a man who has an item of equipment that can be used in potato chip manufacture. He will exchange it only if the dollars he receives for the item have greater value for him than the equipment he surrenders.

Suppose our potato chip maker needs money to finance expansion. A banker who has idle dollars will surrender a number of them after his evaluation at the point of exchange assures him that he will receive a return of a suitably larger number of dollars later.

Now consider the customer. He comes with money in hand and perhaps an appetite for potato chips. But before he surrenders his money he, too, makes an evaluation at the point of exchange. If, and only if, he values potato chips more than the money he must surrender for them is an exchange consummated.

Note that a private concern in a system of free enterprise is an entity of such characteristics that all people who deal with it, material suppliers, equipment dealers, money lenders, workmen, and customers, contribute what they value less and receive what they value more. There is a net gain for each person. Also, where there are several competing enterprises, each person is free to deal with the organization that returns the *most* for what he contributes. Thus there is a natural selection of those firms who are capable of operating so that each person, whether he be a material supplier, equipment dealer, a workman, a banker, professional man, or customer, receives the *most* for his contributions. Any firm that cannot compete under these conditions fails.

SOCIALISTIC enterprises have two fundamental characteristics that lead to inefficiencies. First, since there is only one entrepreneur, the inefficient social operation cannot be weeded out by the forces of competition. Inefficiency is not distinguishable from efficiency if there is no competition to serve as a basis of comparison. Second, in social enterprise there is rarely an evaluation at the point of exchange. The person who pays his income tax has no practical way of evaluating what he receives in return for his tax dollars. He receives nothing at the point of exchange, the tax window, in return for his contribution.

Similarly there is no evaluation at the point of exchange at the time the products of a social enterprise are distributed. Since no direct payment is required in exchange for such products, people will naturally demand them so long as they are of any benefit. Thus the products of a social enterprise are accepted by people, even though the benefit they receive from the product may be much less than its cost to others.

No system of enterprise has given so many people so much for so little as has free enterprise. Increasing efficiency is inherent in it. The productivity of the most capable operators automatically becomes the goal toward which all may strive—a goal which allows everybody to win.

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