

FREEDOM FORWARD

Limiting Government,
Empowering Families,
Strengthening
American Industry

*A pro-growth, limited government
handbook for reigniting America's
economic engine*

If done well, sound policies form the necessary foundation for American free enterprise and market competition to flourish. Free market values will see millions of Americans once again pursuing the American dream.

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— Samuel Gregg —



Club for Growth Foundation is a 501(c)(3) non-profit organization focused on educating the public about the value of free markets, pro-growth policies, and economic prosperity.



INTRODUCTION

By Dr. Samuel Gregg

America is seen by the rest of the world as epitomizing free market capitalism. Alas, the reality of today's American economy is far removed from this popular perception. The long-term interventionist legacies of the New Deal of the 1930s, plus the Great Society programs of the 1960s, continue to weigh heavily on the US economy.

Certainly, America leads the world in key areas of economic development, such as entrepreneurship. Yet in other spheres of American economic life, especially competition and trade policy, we have seen considerable erosion of free market principles over the past 10 years.

Across the American political spectrum, ideas and policies inimical to the workings of dynamic markets and market-driven economic growth have emerged and acquired widespread traction among legislators, policymakers, and large segments of the American public. Economic nationalism in the forms of protectionism and industrial policy, for example, now exerts influence on portions of the political Right. Meanwhile, on the political Left, stakeholder capitalism, corporatism, and environmental, social, and governance (ESG) investing are aggressively promoted—so much so that large swaths of corporate America have embraced these ideas.

Overlaid by these political, intellectual, and policy shifts, the US economy is increasingly characterized by cronyism. Politically connected businesses collaborate closely with legislators to lock potential competitors and new entrepreneurs out of

markets by imposing regulations that are difficult for new entrants to navigate. These backroom deals distort capital investment decisions and undermine growth in all sectors of the economy. Further complicating matters is America's excessive reliance on loose monetary policy to spur economic growth. A lax monetary strategy may fuel growth for a while, but over time, it contributes to the steady buildup of inflationary pressures that inflict the most harm on Americans with low and fixed incomes.

America is thus far removed from the pro-market political and economic climate of ideas that prevailed from the late 1970s until the 2008 financial crisis. Far from being the default position of the political Right and much of the center Left, free market ideas (and their promoters) now find themselves playing defense. Once ascendent—at least rhetorically—over those who believe in extensive government intervention, free market principles are no longer in fashion.

The challenge faced by Americans who believe in the economic, political, and moral superiority of a market economy over the alternatives—ranging from neo-Keynesianism to soft forms of socialism, corporatism, and outright populism—is historic. In response, two defensive angles of attack seem prudent.

The first angle of attack is to engage in the challenging task of reminding our citizenry of the past and ongoing failures of interventionist policies pushed by both sides of the political spectrum. Two truths to emphasize stand out: growth by intervention never succeeds, and unceasing increases in welfare and entitlement programs forever balloon the public debt. Extensive historical and economic research demonstrates that faith in mixed economies—those

that retain the forms of private property and market exchange but envelop them in multiple layers of government intercession—is utterly misplaced.

Such research is of the long-term variety; the results of educating citizens in its results may not influence the conduct of public policy for decades. Nonetheless, the results lay the foundation for substantial policy changes in the future. Eminent 20th-century free market thinkers like F. A. Hayek and Milton Friedman spent years pursuing this type of intellectual agenda. Their efforts eventually paid off in the late 1970s, as America and much of the rest of the world turned away from neo-Keynesian policies to embrace free markets.

Action is required today as well; near-term activities, a second angle of attack, can also be undertaken to bolster pro-market policies in America. For instance, we should identify those issues that most worry Americans. We already know that one such concern is the strength of America's industrial sector; its declining share of the overall economy is driving many thinkers, policymakers, legislators, and citizens away from any commitment to free markets.

A second concern is the question of free trade. Economic nationalists on the Left and the Right have targeted our postwar commitment to the liberalization of trade across the world. The economic benefits to America of trade liberalization are hard to deny: the growth that flowed from the discipline imposed on the American economy by competition from abroad since the United States firmly committed to trade liberalization after World War II is clear. Nonetheless, economic nationalist skepticism persists. Factors like the rise of China as a major geopolitical actor have all contributed to a growing bias against free market thinking, as have (contested) claims about the effects on parts of the American economy from China's entry into the World Trade Organization, and the concern that specific regions and demographic groups in the United States have been net losers from economic globalization.

A third concern needing immediate policy attention is the rise of ESG investing and the associated agenda of stakeholder capitalism, both of which have been promoted by the political Left. The influence of ESG can be traced back several decades, but its successful inroads into corporate America over the past 15 years have been striking. These issues, and more like them, threaten to hide and even destroy any appreciation for the advantages of market competition and incentives. Foes are destroying our country's free market thinking from within.

Critiquing arguments for economic nationalism, ESG, and similar ideas is important. In itself, however, this is only a defensive exercise. Going forward, the centerpiece of the agenda for free markets must be an exciting and convincing case for capitalism. We have a tremendous opportunity to help more Americans grasp how market principles can reignite growth, bolster industrial competitiveness, and reshape an American economy aptly fitted for domestic and international challenges through—and for—the next generation! We must build on, not merely yearn for, the market conditions of the '80s and '90s.

What might be the implications, for example, of a renewed free market agenda for America's dysfunctional educational system? How should the state undertake vital activities like infrastructure development in ways that avoid incentivizing cronyism? What does an effort at systematic deregulation of the American economy at the federal, state, and local levels of government look like? How can we engage in tax reform in ways that reduce the government's endless demand for revenue while allowing capital and investment to flow freely and efficiently to the most productive parts of the US economy? What type of free market policies are likely to support high levels of employment over the long term?

These questions are especially relevant for American manufacturing. Economic nationalists insist that this particular economic sector needs tariff protection as well as invasive industrial policy-like subsidies. Such policies, however, have failed to bolster either manufacturing output or employment. In March 2018, for example, the federal government increased tariffs on steel and aluminum imports.¹ A Federal Reserve analysis of the impact of these increases released in December 2019 estimated that, on balance, these tariffs resulted in a net loss of approximately 75,000 jobs, the majority of which were blue-collar jobs located in mostly blue-collar towns. The reason: higher steel prices increased costs for industries consuming steel. Unsurprisingly, they responded by trimming their workforces and making greater use of technology.²

Better ways to bolster US manufacturing that are consistent with free market principles include enacting policies that would reduce the industry's regulatory and tax burdens. In parallel, free market advocates should pursue a levelheaded assessment of how existing industrial policies have incentivized manufacturing firms to avoid adapting to domestic and foreign competition and instead to lobby legislators for market privileges. We want companies to be investing capital in innovative ways to promote competitiveness so that America's manufacturing jobs are suited for the needs of the future, not the past.

Stepping back a bit, there is the even bigger question of the constitutional and legal framework within which the US economy operates. Over the past 50 years, we have learned how America's legal system burdens the workings of economic life through excessive regulation—and are therefore contrary to the motivations of our forefathers. The debates that eventually led to the drafting and ratification of our Constitution were heavily influenced by the desire to

¹ U.S. Department of Commerce, Bureau of Industry and Security, "Section 232 National Security Investigation of Steel Imports: Information on the Exclusion Process." Accessed March 15, 2024. <https://www.bis.doc.gov/index.php/232-steel>.

² Flaaten, Aaron, and Justin Pierce. "Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector." 2019. Finance and Economics Discussion Series 2019-086. Washington: Board of Governors of the Federal Reserve System. February 27, 2022. <https://doi.org/10.17016/FEDS.2019.086>.

resolve economic problems left unaddressed by the Articles of Confederation. Thankfully, a cornerstone economic achievement of the US Constitution was its establishment of the new republic as a single and united free trade zone. That approach would play a key role in the rise of the United States to the status of a global economic superpower by the end of the 19th century. Similar economic thinking—unshackled by government interference—is needed today.

There are important constitutional issues that must be resolved if we are to revive free markets in America.

Prominent among such matters is the vast scope and authority conferred on the administrative state to act in a manner essentially free from legislative control and oversight. This was codified by the Supreme Court’s 1984 *Chevron* doctrine.³ The resulting explosive growth of an unaccountable bureaucracy has had devastating effects on the American economy, particularly the manufacturing sector.

The end result has been the dramatic expansion of the power of federal government agencies to reach into the American economy.

Beyond the negative economic consequences of state oversight, it certainly raises questions concerning the accountability of government agencies to the citizens they serve.

Addressing these immediate policy challenges in order to make the US economy more competitive, dynamic, and productive is critical.

But an even broader issue must be addressed—that of promoting the basic legitimacy of a market economy in the eyes of Americans. By this, I mean more than simply boosting understanding and encouraging acceptance of the economic case for markets. Though they are important, economic arguments for free markets need to be supplemented by greater conviction among Americans that market economies are good in and of themselves. This applies to the United States in particular, and again, in ways that go beyond greater economic efficiency.

The best free market thinkers have always understood that extra-economic arguments for capitalism can help establish acceptance of free markets among wider audiences.

Americans need to be persuaded, for example, that free markets bolster rather than degrade America’s national security; that capitalism can help sustain stable families; that free-market policies will reinforce, and not diminish, American industrial strength and competitiveness; that dynamic markets promote important values like creativity, civility, and trust beyond the boundaries of kith and kin; and that free market policies encourage both self-restraint and self-command in how people conduct their lives.

Above all, Americans should understand that while free markets are not unique to the United States, there is something about our free market economy that echoes what it means to be an American in ways that alternative economic arrangements like socialism do not.

Even the most cursory of reflections on America’s founding make it clear that if today’s Americans are to be faithful to the preeminent insights of our Founding Fathers, the United States cannot be allowed to slouch ever more closely toward European social democracy.

Of all America’s founding texts, President George Washington’s Farewell Address of 1796 best expresses the liberty-oriented economic vision of his period. Washington referred to the commercial strength and growth generated by the integration of the markets north, south, east, and west within the United States. According to the Father of our Country,

³ *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984).

Harmony, liberal intercourse with all nations, are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand, neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing; establishing (with powers so disposed, in order to give trade a stable course, to define the rights of our merchants, and to enable the Government to support them) conventional rules of intercourse . . .⁴

This is a vision of America as a commercial republic, in which its very identity as a nation is defined by limited government constitutionalism and a deep commitment to free commerce and economic liberty.

As a country, we need to ask ourselves how loyal today's United States is to this vision. Any return to free market principles and policies must include linking these ideas and programs to an understanding of who Americans are meant to be.

If done well, we will form the necessary foundation for American free enterprise and market competition to flourish.

Free market values will see millions of Americans once again pursuing the American dream. Sound policies ultimately reflect sound principles. Therein lies the path to a freer and more prosperous America that is again capable of fulfilling its promises to all its citizens.

I commend to you the market policy ideas outlined in the following chapters.



About the Author

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⁴ The American Presidency Project, "George Washington: Farewell Address," accessed March 15, 2024, <https://www.presidency.ucsb.edu/documents/farewell-address>.

