

**TWO ESSAYS ON  
FREE ENTERPRISE**

**F. A. HAYEK**



**FORUM OF FREE ENTERPRISE**  
"SOHRAB HOUSE", 235 DR. D. N. ROAD, BOMBAY-1

## INTRODUCTION

ANY society is concerned not only with production of goods and services, and their proper distribution, but also the prevalence and maintenance of moral values. What is the role of the individual and of the state in this effort? What is the concept of individual freedom and of coercion by the state? These are delicate yet all-important questions for a nation like ours, on the threshold of a new era.

This booklet presents an analysis of these problems by one of the leading economists and social thinkers of the world, Mr. F. A. Hayek. His book, "Road to Serfdom", continues to hold the place of a classic analysis of socialism and how it leads to destruction of individual freedoms and democracy. In fact, events have proved him a prophet. One of his latest publications, "The Constitution of Liberty", has likewise been hailed as a landmark in creative thinking on economic and moral problems of the modern society.

The Forum of Free Enterprise is grateful to Prof. Hayek for according it the permission to reproduce two of his articles in the form of a booklet. It is to be earnestly hoped that the words of wisdom contained in these two articles would break the spell of ideology which envelopes many a mind in developing countries like ours.

A. D. SHROFF,  
President, Forum of Free Enterprise

"People must come to understand free enterprise not as a religion, but as an administrative process."

— Winston Churchill  
President, Forum of Free Enterprise

**Books by F. A. HAYEK**

1. Monetary Theory and the Trade Cycle
2. Prices and Production
3. Monetary Nationalism and International Stability
4. Profits, Interest, and Investment
5. The Pure Theory of Capital
6. The Road to Serfdom
7. Individualism and Economic Order
8. John Stuart Mill & Harriet Taylor
9. The Counter-Revolution of Science
10. The Sensory Order
11. The Constitution of Liberty

# THE FREE MARKET ECONOMY IS THE MOST EFFICIENT WAY OF SOLVING ECONOMIC PROBLEMS

F. A. Hayek

AN unhindered market provides the most efficient steering of production, because it secures the fullest utilisation of knowledge necessarily dispersed among millions of men. All the resources, material and human, which can be made to serve human needs, exist in countless varieties and forms, distributed widely in space and constantly changing in quantity and quality. What benefits we will derive from them depends on how well the use of the particular items is, at every moment and place, adapted to the ever-changing conditions.

Resources exist for this purpose only to the extent that the concrete facts about them and about the opportunities for their use are known to particular men. The global figures about total stocks or supplies on which a central planner of production has to rely leave out most of the information which should be taken into account in the decision about the use of the individual item. Even with the most standardised raw material, two carloads available at different places or at different times offer different opportunities.

With more complex products, such as machines, often no two different items are equally useful for all purposes to which they can be put.

Our productivity depends on the use of the widely dispersed knowledge of these ever-changing concrete facts

of place and time. This knowledge can never be at the disposal of a central direction of the economy. It can be used only if the decisions are decentralised and placed in the hands of those who know the particular facts. But if the individuals are to use their knowledge successfully, they must be in a position mutually to adjust their decisions so that their individual plans fit into each other, and to take account in these plans of many circumstances of which they do not directly know.

This cannot be achieved by deliberate co-ordination *because* the co-ordinating agency would have to possess that very knowledge of detail which cannot be *concentrated* in a single hand.

What is needed, therefore, is an impersonal mechanism of communication which conveys to the individuals just that information which they require in order to adjust their decisions to those of their fellows. This is what prices in an unhindered market will do—not perfectly, but infinitely better than can be achieved by any other known method. They tell each individual not only what others are willing to give for his products or services, but also the relative importance of all the different tools and materials which he can use in supplying other people's needs. They register the relevant effects of countless other facts which the individual, without knowing of those facts themselves, is thus made to take into account.

He need not know why or where one kind of material is more urgently demanded or some service can be more easily dispensed than was the case before. All he need know is that the price of the one has risen and that of the other fallen and he will in consequence be led to economise the former and more freely use the latter.

To appreciate the importance of this, we must remember that almost all human needs can be satisfied in a great variety of ways and that nearly all commodities can be made from a great many different materials and of many

different proportions of these materials. How much we shall get from our efforts depends probably less on the total quantity of resources at our disposal than on putting each to the use where it will make the greatest contribution. In order to maximise output, it is necessary to use the different materials and kinds of work in such proportions that the relative contribution of the marginal units is the same in all their different uses.

So long as, *e.g.*, an extra ton of coal will make a greater contribution to the product of one plant than an extra barrel of oil, while at the plant next door the position is the reverse, overall output can clearly be increased if the former substitutes coal for oil and the latter oil for coal. Under competitive conditions this process will go on until the quantities of two such materials which will make the same contribution to the product (taking account of costs of transportation and the like) are the same in all plants.

This result, which is produced by each manufacturer endeavouring to minimise his costs, secures at the same time all round maximum output.

Changes in prices will thus make the individual producer adjust himself to changes which may occur in very different industries or places, of which he does not know directly but whose relevant effects are registered by the prices. Market prices are in this sense the resultant of all the knowledge possessed by the different individuals concerned with a commodity and reflect all the opportunities and needs for its use. They indicate the urgency of different needs, the expediency of substitutions, and all the opportunities people believe to exist for the use of the commodities, now or in the future.

This, however, is true only of prices as they will be determined in an unhindered market, that is, a market at which prices make demand equal supply. Only if anyone who wishes is allowed to supply or buy any commodity or service, at any price and at any quantity he chooses, will prices

fulfil this function. Prices which are not determined under such conditions, and at which those willing to sell or buy are not able to sell or buy as much as they wish, lead to misdirections of production and waste. With such prices some resources will not be turned to the most productive use and others that should be used will remain altogether idle.

As the term Government intervention is now often used in a vague sense which suggests that all Government concern with economic matters is objectionable, it must be stressed that only Government interference with prices, quantities, and the entry into trades is altogether incompatible with a free market. There is much Government may do or indeed must do in order to keep the market functioning—above all it must enforce the ordinary rules of law. But if the individuals are to use their own knowledge in the allocation of resources effectively, the actions of Government must be predictable. So far as Government acts according to known rules of law, it assists the individuals in their own efforts by providing fixed data on which they can base their plans.

Yet prices, quantities, or the entry into trades, cannot be determined by rules. Any attempt to regulate them by decree must take account of every changing circumstance and be guided by the particular preferences and aims of the authority. Such measures are, therefore, in their very nature, unpredictable, discretionary and essentially arbitrary.

In other words, it is the character rather than the volume of Government activity that is important. A functioning market economy presupposes certain activities on the part of the state; there are some other such activities by which its functioning will be assisted; and it can tolerate many more, provided that they are of the kind which are compatible with a functioning market. But there are those which run counter to the very principle on which a free system rests and which must, therefore, be altogether excluded if such a system is to work.

In consequence, a Government that is comparatively inactive but does the wrong things may do much more to cripple the forces of a market economy than one that is more concerned with economic affairs but confines itself to actions which assist the spontaneous forces of the economy.

The criterion which enables us to distinguish between those measures which are and those which are not compatible with a free system is thus conformity with the principles of the rule of law. All measures that satisfy its requirements may be examined further on grounds of expediency. Many of them will, of course, still be undesirable or even harmful. But those that are not must be rejected even if they provide an effective, or perhaps the only effective, means to a desirable end. It is true that the observation of the rule of law is only a necessary, but not yet a sufficient condition for the working of a free economy. The important point, however, remains, that all coercive action of Government must be unambiguously determined by a permanent legal framework which enables the individual to plan with a degree of confidence and which reduces human uncertainty as much as possible.

The main function of this permanent legal framework is to reduce coercion of individuals by other individuals as much as possible. It must be realised that at the present time Government does not even adequately perform this essential and indispensable function. It has granted trade unions unique privileges of coercion towards workers unwilling to join them, which are entirely contrary to the principles on which a free system rests. Here a much more consistent application of the basic principles of the rule of law would be desirable if the market is to work efficiently.

The function of law in a free society is predominantly to prevent violence and coercion, fraud and deception. To enforce the rules which will achieve this, and for this purpose only, Government must possess the power to coerce and ought to have the monopoly of coercion. But

we shall not overlook that the coercive functions of Government are not its only functions and that there are many pure service functions which it may undertake where coercion does not enter or does so only through the need of financing them through taxation. In so far as the Government merely undertakes to supply services which otherwise would not be supplied at all (usually because it is not possible to confine the benefits to those prepared to pay for them), the only question which arises is whether the benefits are worth the cost. Of course, if the Government claims for itself the exclusive right to provide particular services, they would cease to be strictly non-coercive. In general, a free society demands not only that the Government have the monopoly of coercion, but that it have the monopoly only of coercion and that in all other respects it operate on the same terms as everybody else.

A great many of the activities which Governments have universally undertaken in this field which fall within the limits described are those which facilitate the acquisition of reliable knowledge about facts of general significance. The most important function of this kind is the provision of a reliable and *efficient* monetary system. Others *scarcely* less important *are* the setting of standards of weights and measures; the providing of information gathered from surveying, land registration, statistics, etc; and the support, if not also the organisation, of some kind of education.

All these activities of Government are part of its effort to provide a favourable framework for individual decisions; they supply the *means* which individuals can use for their own purposes. Many other services of a more material kind fall into the same category. Though in a free society Government ought not reserve to itself activities which have nothing to do with the enforcement of the general rules of law and the assurance of a protected private sphere to the individual, there is no violation of the basic principles of such a society if the Government engages

in all sort of activities on the same terms as the citizens. If in the majority of fields there is no good reason why it should do so, there are fields in which the desirability of Government action can hardly be questioned.

To this latter group belong all those services which are clearly desirable but will not be provided by competitive enterprise because it would either be impossible or difficult to charge the individual beneficiary for them. Such are most sanitary and health services, often the construction and maintenance of roads, and many of the amenities provided by municipalities for inhabitants of cities. There are also many other kinds of activity in which Government may legitimately wish to engage, in order perhaps to maintain secrecy in military preparations or to encourage the advance of knowledge in certain fields. But though Government may at any moment be best qualified to take the lead in such fields, this provides no justification for assuming that this will always be so and, therefore, for giving it exclusive responsibility. In most instances, moreover, it is by no means necessary that the Government engage in the actual management of such activities; the services in question can generally be provided, and more effectively provided, by the Government's assuming some or all of the financial responsibility but leaving the conduct of the affairs to independent and in some measure competitive agencies.

There is considerable justification for the distrust with which business looks on all state enterprise. There is great difficulty in ensuring that such enterprise will be conducted on the same terms as private enterprise; and it is only if this condition is satisfied that it is not objectionable in principle. So long as a Government uses any of its coercive powers, and particularly its power of taxation, in order to assist its enterprises, it can always turn its position into one of actual *monopoly*. To prevent this, it would be necessary that any special advantages, including subsidies, which Government gives to its own enterprises in any field, also be made available to competing private agencies. There is no need to emphasise

that it would be exceedingly difficult for Government to satisfy these conditions and that the general presumption against state enterprise is thereby considerably strengthened. But this does not mean that all state enterprise must be excluded from a free system. Certainly it ought to be kept within narrow limits; it may become a real danger to liberty if too large a section of economic activity comes to be subject to the direct control of state. But what is objectionable here is not state enterprise as such but state monopoly.

Furthermore, a free system *does* not exclude on principle all those general regulations of economic activity which can be laid down in the form of general rules specifying conditions *which* everybody who engages in a certain activity must satisfy.

These include, in particular, all regulations governing the technique of production. We are not concerned here with the question of whether such regulations will be wise, which they probably will be only in exceptional cases. They will always limit the scope of experimentation and thereby obstruct what may be useful developments. They will normally raise the cost of production or, what amounts to the same thing, reduce over-all productivity. But if this effect on cost is fully taken into account and it is still thought worthwhile to incur the cost to achieve a given end, there is little more to be said about it. The economist will remain suspicious and hold that there is a strong presumption against such measures because their over-all costs are almost always underestimated and because one disadvantage in particular—namely the prevention of new developments—can never be taken fully into account.

But if, for instance, the production and sale of phosphorous matches are generally prohibited for reasons of health, or permitted only if certain precautions are taken, or if night work were generally prohibited, the appropriateness of such measures might be judged by comparing the over-all cost with the gain; it cannot be conclu-

sively determined by appeal to a general principle. This is true of most of the wide field of regulation known as factory regulation.

The range and variety of Government action that is, at least in principle, reconcilable with a free system is thus considerable. The old formulae of *laissez faire* or non-intervention do not provide us with an adequate criterion for distinguishing between what is and what is not admissible in a free system. There is ample scope for experimentation and improvement within that permanent legal framework which makes it possible for a free society to operate most efficiently.

Why, then, has there been such persistent pressure to do away with those limitations upon Government that were erected for the protection of individual liberty? And if there is so much scope for improvement within the rule of law, why have the reformers striven so constantly to weaken and undermine it? The answer is that during the last few generations certain new aims of policy have emerged which cannot be achieved within the limits of the rule of law. A Government which cannot use coercion except in the enforcement of general rules has no power to achieve particular aims that require means other than those explicitly entrusted to its care and, in particular, cannot determine the material position of particular people or enforce distributive or "social" justice. In order to achieve such aims, it would have to pursue a policy which is best described—since the word "planning" is so ambiguous—by the French word *dirigisme*, that is, a policy which determines for what specific purpose particular means are to be used.

This, however, is precisely what a Government bound by the rule of law cannot do. If the Government *is* to determine how particular people ought to be situated, it must be in a position to determine also the *direction* of individual *efforts*. If Government treats *different* people equally, the results *will* be unequal and if it allows people to make what use they *like* of the capacities and means



st *their* disposal, the consequences for *the individuals* will be unpredictable.

The restrictions which the rule of law imposes upon Government thus preclude all those measures which would be necessary to ensure that individuals will be rewarded according to another's conception of merit or desert rather than according to the value that their services have to their fellows--or, what amounts to the same thing—it precludes the pursuit of distributive, as opposed to commutative justice. Distributive justice requires an allocation of all resources by a central authority: it requires that people be told what to do and what ends to serve. Where distributive justice is the goal, the decision as to what the different individuals must be made to do cannot be derived from general rules but must be made in the light of the particular aims and knowledge of the planning authority. Where the opinion of the community decides what different people shall receive, the same authority must also decide what they shall do.

## THE MORAL ELEMENT IN FREE ENTERPRISE

ECONOMIC activity provides the material means for all our ends. At the same time, most of our individual efforts are directed to providing means for the ends of others in order that they, in turn, may provide us with the means-for our ends. It is only because we are free in the choice of our means that we are also free in the choice of our ends.

Economic freedom is thus an indispensable condition of all other freedom, and free enterprise both a necessary condition and a consequence of personal freedom. In discussing The Moral Element in Free Enterprise I shall therefore not confine myself to the problems of economic life but consider the general relations between freedom and morals.

By freedom in this connection I mean, in the great Anglo-Saxon tradition, independence of the arbitrary will of another. This is the classical conception of freedom under the law, a state of affairs in which a man may be coerced only where coercion is required by the general rules of law, equally applicable to all, and never by the discretionary decision of administrative authority.

The relationship between this freedom and moral values is mutual and complex. I shall, therefore, have to confine myself to bringing out the salient points in something like telegraphic style.

It is, on the one hand, an old discovery that morals and moral values will grow only in an environment of freedom, and that, in general, moral standards of people and classes are high only where they have long enjoyed freedom—and proportional to the amount of freedom they have possessed.

It is also an old insight that a free society will work well only where free action is guided by strong moral beliefs. and, therefore, that we shall enjoy all the benefits of freedom only where freedom is already well established. To this I want to add that freedom, if it is to work well, requires not only strong moral standards but moral standards of a particular kind, and that it is possible in a free society for moral standards to grow up which, if they become general, will destroy freedom and with it the basis of all moral values.

Before I turn to this point, which is not generally understood, I must briefly elaborate upon the two old truths which ought to be familiar but which are often forgotten. That freedom is the matrix required for the growth of moral values—indeed not merely one value among many but the source of all values—is almost self-evident. It is only where the individual has choice, and its inherent responsibility, that he has occasion to affirm existing values, to contribute to their further growth, and to earn moral merit. Obedience has moral value only where it is a matter of choice and not of coercion. It is in the order in which we rank our different ends that our moral sense manifests itself; and in applying the general rules of morals to particular situations each individual is constantly called upon to interpret and apply the general principles and in doing so to create particular values.

This has in fact brought it about that free societies not only have generally been law-abiding societies, but also in modern times have been the source of all the great humanitarian movements aiming at active help to the weak, the ill, and the oppressed. Unfree societies, on the other hand, have as regularly developed a disrespect for the law, a callous attitude to suffering, and even sympathy for the malefactor.

I must turn to the other side of the medal. It should also be obvious that the results of freedom must depend on the values which free individuals pursue. It would be impossible to assert that a free society will always and

necessarily develop values of which we would approve, or even, as we shall see, that it will maintain values which are compatible with the preservation of freedom. All that we can say is that the values we hold are the product of freedom, that in particular the Christian values had to assert themselves through men who successfully resisted coercion by government. and that it is to the desire to be able to follow one's own moral convictions that we owe the modern safeguards of individual freedom. Perhaps we can add to this that only societies which hold moral values essentially similar to our own have survived as free societies, while in others freedom has perished.

All this provides strong argument why it is most important that a free society be based on strong moral convictions and why if we want to preserve freedom and morals, we should do all in our power to spread the appropriate moral convictions. But what I am mainly concerned with is the error that men must first be good before they can be granted freedom.

It is true that a free society lacking a moral foundation would be a very unpleasant society in which to live. But it would even so be better than a society which is unfree and immoral; and it at least offers the hope of a gradual emergence of moral convictions which an unfree society prevents. On this point, I strongly disagree with John Stuart Mill, who maintained that until men have attained the capacity of being guided to their own improvement by conviction or persuasion, "there is nothing for them but implicit obedience to an Abbar or Charlemagne, if they are so fortunate as to find one." Here I believe T. B. Macaulay expressed the much greater wisdom of an older tradition, when he wrote that "many politicians of our time are in the habit of laying it down as a self-evident proposition that no people are to be free till they are fit to use their freedom. The maxim is worthy of the fool in the old story, who resolved not to go into the water till he had learned to swim. If men are to wait for liberty till they become wise and good, they may indeed wait forever"

I have said that liberty, to work well, requires not merely the existence of strong moral convictions but also the acceptance of particular moral views. By this I do not mean that within limits utilitarian considerations will contribute to alter moral views on particular issues. Nor do I mean that, as Edwin Cannan expressed it, "of the two principles, Equity and Economy, Equity is ultimately the weaker...the judgment of mankind about what is equitable is liable to change, and... one of the forces that causes it to change is mankind's discovery from time to time that what was supposed to be quite just and equitable in some particular matter has become, or perhaps always was, uneconomical."

This is also true and important, though it may not be a commendation to all people. I am concerned rather with some more general conceptions which seem to me an essential condition of a free society and without which it cannot survive. The two crucial ones seem to me the belief in individual responsibility and the approval as just of an arrangement by which material rewards are made to correspond to the value which a person's particular services have to his fellows; not to the esteem in which he is held as a whole person for his moral merit.

I must be brief on the first point—which I find very difficult. Modern developments here are part of the story of the destruction of moral value by scientific error which has recently been my chief concern—and what a scholar happens to be working on at the moment tends to appear to him as the most important subject in the world.

Free societies have always been societies in which the belief in individual responsibility has been strong. They have allowed individuals to act on their knowledge and beliefs and have treated the results achieved as due to them. The aim was to make it worthwhile for people to act rationally and reasonably and to persuade them that what they would achieve depended chiefly on them. This last belief is undoubtedly not entirely correct, but it certainly had a wonderful effect in developing both initiative and circumspection.

BY a curious confusion it has come to be thought that this belief in individual responsibility has been refuted by growing insight into the manner in which events generally, and human actions in particular, are determined by certain classes of causes. It is probably true that we have gained increasing understanding of the kinds of circumstances which affect human action—but no more. We can certainly not say that a particular conscious act of any man is the necessary result of particular circumstances that we can specify—leaving out his peculiar individuality built up by the whole of his history. Of our generic knowledge as to how human action can be influenced we make use in assessing praise and blame—which we do for the purpose of making people behave in a desirable fashion. It is on this limited determinism—as much as our knowledge in fact justifies—that the belief in responsibility is based, while only a belief in some metaphysical self which stands outside the chain of cause and effect could justify the contention that it is useless to hold the individual responsible for his actions.

Yet, crude as is the fallacy underlying the opposite and supposedly scientific view, it has had the most profound effect in destroying the chief device which society has developed to assure decent conduct—the pressure of opinion making people observe the rules of the game. And it has ended in that Myth of Mental Illness which a distinguished psychiatrist, Dr. T. S. Szasz, has recently justly castigated in a book so titled. We have probably not yet discovered the best way of teaching people to live according to rules which make life in society for them and their fellows not too unpleasant. But in our present state of knowledge I am sure that we shall never build up a successful free society without that pressure of praise and blame which treats the individual as responsible for his conduct and also makes him bear the consequences of even innocent error.

But if it is essential for a free society that the esteem in which a person is held by his fellows depends on how far he lives up to the demand for moral law, it is also

essential that material reward should not be determined by the opinion of his fellows of his moral merits but by the value which they attach to the particular services he renders them. This brings me to my second chief point: the conception of social justice which must prevail if a free society is to be preserved. This is the point on which the defenders of a free society and the advocates of a collectivist system are chiefly divided. And on this point, while the advocates of the socialist conception of distributive justice are usually very outspoken, the upholders of freedom are unnecessarily shy about stating bluntly the implications of their ideal.

The simple facts are these: We want the individual to have liberty because only if he can decide what to do can he also use all his unique combination of information, skills and capacities which nobody else can fully appreciate. To enable the individual to fulfill his potential we must also allow him to act on his own estimates of the various chances and probabilities. Since we do not know what he knows, we cannot decide whether his decisions were justified; nor can we know whether his success or failure was due to his efforts and foresight, or to good luck. In other words, we must look at results, not intentions or motives, and can allow him to act on his own knowledge only if we also allow him to keep what his fellows are willing to pay him for his services, irrespective of whether we think this reward appropriate to the moral merit he has earned or the esteem in which we hold him as a person.

Such remuneration, in accordance with the value of a man's services, inevitably is often very different from what we think of his moral merit. This, I believe, is the chief source of the dissatisfaction with a free enterprise system and of the clamour for "distributive justice". It is neither honest nor effective to deny that there is such a discrepancy between the moral merit and esteem which a person may earn by his actions and, on the other hand, the value of the services for which we pay him. We place ourselves in an entirely false position if we try to gloss over this fact or to disguise it. Nor have we any need to do so.

It seems to me one of the great merits of a free society that material reward is not dependent on whether the majority of our fellows like or esteem us personally. This means that, so long as we keep within the accepted rules, moral pressure can be brought on us only through the esteem of those whom we ourselves respect and not through the allocation of material reward by a social authority. It is of the essence of a free society that we should be materially rewarded not for doing what others order us to do, but for giving them what they want. Our conduct ought certainly to be guided by our desire for their esteem. But we are free because the success of our daily efforts does not depend on whether particular people like us, or our principles, or our religion, or our manners, and because **we** can decide whether the material reward others are prepared to pay for our services makes it worth while for us to render them.

We seldom know whether a brilliant idea which a man suddenly conceives, and which may greatly benefit his fellows, is the result of years of effort and preparatory investment, or whether it is a sudden inspiration induced by an accidental combination of knowledge and circumstance. But we do know that, where in a given instance it has been the former, it would not have been worth while to take the risk if the discoverer were not allowed to reap the benefit. And since we do not know how to distinguish one case from the other, we must also allow a man to get the gain when his good fortune is a matter of luck.

I do not wish to deny, I rather wish to emphasise, that in our society personal esteem and material success are much too closely bound together. We ought to be much more aware that if we regard a man as entitled to a high material reward that in itself does not necessarily entitle him to high esteem. And, though we are often confused on this point, it does not mean that this confusion is a necessary result of the free enterprise system — or that in general the free enterprise system is more materialistic than other social

orders. Indeed, and this brings me to the last point I want to make, it seems to me in many respects considerably less so.

'In fact, free enterprise has developed the only kind of society which, while it provides us with ample material means, if that is what we mainly want, still leaves the individual free to choose between material and non-material reward. The confusion of which I have been speaking—between the value which a man's services have to his fellows and the esteem he deserves for his moral merit—may well make a free enterprise society materialistic. But the way to prevent this is certainly not to place the control of all material means under a single direction, to make the distribution of material goods the chief concern of all common effort and thus to get politics and economics inextricably mixed.

It is as least possible for a free enterprise society to be in this respect a pluralistic society which knows no single order of rank but has many different principles on which esteem is based; where worldly success is neither the only evidence nor regarded as certain proof of individual merit. It may well be true that periods of a very rapid increase of wealth, in which many enjoy the benefits of wealth for the first time, tend to produce for a time a predominant concern with material improvement. Until the recent European upsurge many members of the more comfortable classes there used to decry as materialistic the economically more active periods to which they owed the material comfort which had made it easy for them to devote themselves to other things.

Periods of great cultural and artistic creativity have generally followed, rather than coincided with, the period of the most rapid increase in wealth. To my mind this shows not that a free society must be dominated by material concerns but rather that with freedom it is the moral atmosphere in the widest sense, the values which people hold, which will determine the chief direction of their activities. Individuals as well as communities, when they

feel that other things have become more important than material advance, can turn to them. It is certainly not by the endeavour to make material reward correspond to all merit, but only by frankly recognising that there are other and often more important goals than material success, that we can guard ourselves against becoming too materialistic.

Surely it is unjust to blame a system as more materialistic because it leaves it to the individual to decide whether he prefers material gain to other kinds of excellence, instead of having this decided for him. There is indeed little merit in being idealistic if the provision of the material means required for these idealistic aims is left to somebody else. It is only where a person can himself choose to make a material sacrifice for a non-material end that he deserves credit. The desire to be relieved of the choice, and of any need for personal sacrifice, certainly does not seem to me particularly idealistic.

I must say that I find the atmosphere of the advanced Welfare State in every sense more materialistic than that of a free enterprise society. If the latter gives individuals much more scope to serve their fellows by the pursuit of purely materialistic aims, it also gives them the opportunity to pursue any other aim they regard as more important. One must remember, however, that the pure idealism of an aim is questionable whenever the material means necessary for its fulfillment have been created by others.

In conclusion, I want to return to the point from which I started. When we defend the free enterprise system we must always remember that it deals only with means. What we make of our freedom is up to us. We must not confuse efficiency in providing means with the purposes which they serve. A society which has no other standard than efficiency will indeed waste that efficiency. If men are to be free to use their talents to provide us with the means we want, we must remunerate them in accordance with the value these means have to us. Nevertheless, we ought to

esteem them only in accordance with the use they make of the means at *their* disposal.

Let us encourage usefulness to one's fellows by all means, but let us not confuse it with the importance of the ends which men ultimately serve. It is the glory of the free enterprise system that it makes it at least possible that each individual, while serving his fellows, can do so for his own ends. But the system is itself only a means and its infinite possibilities must be used in the service of ends which exist apart.

---

*Views expressed in this booklet do not necessarily represent the views of the Forum of Free Enterprise.*

**"Free Enterprise was born with man and shall survive as long as man survives."**

**—A. D. Shroff**

## HAVE YOU JOINED THE FORUM?

The Forum of Free Enterprise is a non-political **organisation**, started in 1956, to educate public opinion in India on free enterprise and its close relationship **with** the democratic way of **life**. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means **as** befit a democratic **society**.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 10/- and Associate Membership fee is Rs. 5/- only. **Bona fide** students can get our booklets and **leaflets** by becoming Student Associates on payment of Rs. 2/- only.

Write for further particulars (**state** whether **Membership** or Student **Associateship**) to the **Secretary, Forum of Free Enterprise**, 235 Dr. **Dadabhai** Naoroji Road, **Post** Box No. 48-A, **Bombay-1**.

Published by M. R. Pai for the Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Bombay 1, and Printed by Michael **Andrades** at the Bombay Chronicle Press, Horniman Circle. **Bombay-1**

9/August/1962.