The Expansion of The Public Sector
Through Foreign Policy

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With the complete imposition of totalitarian Socialism (Communism) or the adoption of full-scale democratic Socialism, the private sector of any economy is absorbed by the public sector. So far, only the first type of Socialism has succeeded in virtually eliminating the private sector. Democratic (parliamentary) Socialism is more gradualist. It expands the public sector by selective take-over and by generally hampering the operation and growth of the private sector. Most of the non-Communist economies of today are described as "mixed economies." They are neither completely private nor entirely public, the "mix" differing from nation to nation.
Both Socialism and Communism require an all-encompassing centralized government machinery. As its result we see the expanding of state functions to regulate, control, tax, and spend. Governments may seize a few or many of the means of production, but in the process they cannot avoid restricting free enterprise in general by intervention or domination and by increasing taxation and the size of the regulatory bureaucracy. Moreover, in this climate there appears to be an inevitable tendency to berate and abuse the private sector, often accusing—sometimes falsely—those who run it of all sorts of economic crimes.

The survival of the private sector in contemporary economies will depend upon a better understanding of the causes, agencies, functions, and intended or unintended consequences of interventionist government in the United States.¹

The Proximate Causes and Ultimate Results of Expanding Government in the United States

1. Large-scale businesses, inviting regulations
2. Labor union monopolies
3. Business cycles
4. Unresisted demands by pressure groups for special benefits
5. Political and bureaucratic ambitions
6. Global enthusiasms for the salvation of mankind
7. Involvement, eager or reluctant, in world politics and economies

The existence of large corporations and labor unions and the need to control monopolistic tendencies are obvious. There are also several “natural monopolies” which require regulation in respect to rates and services because of the impracticality of competition. And we remember, of course, the Great Depression and the numerous “alphabetical agencies” established in the vain effort to achieve “full employment and economic prosperity.” The fourth cause, the demands by pressure groups for government favors, has been in operation since the beginning of our nation. The significance of such words as tariffs, bounties, “pork-barrel,” quotas, and subsidies should be well known. A multiplicity of government favors not only requires a multitude of public employees but also tends to give rise to bloc voting and electoral corruption through “platform bribes.”

The personal ambitions of politicians, demagogues, and bureaucrats to make history or at least widen their jurisdiction also causes growth and extravagance in government. This trend, curiously enough, is no longer attentively observed by the general public of our time. The warnings of the founders of the limited governments of the Old World and the New have been forgotten. For the promotion of their welfare, people now seem to expect more and more from the state and less and less from their own efforts and ingenuity.

The sixth and seventh causes are closely related and will form the crux of my analysis. But first a few observations about the context. Big government operates in ever large measure through agencies of various types which have restricted the free enterprise of the people but which also have tended to wring from the Congress more and more autonomy and thus have removed themselves even farther from the inspection and control by the representatives of the people. Many of these agencies are at-
tached to the various federal departments headed by the President's Cabinet officials. These posts have increased considerably during the past century. The more recent addition was a Secretary of Health, Education, and Welfare. And the most likely addition in the near future will be a Secretary of Urban Affairs and Housing. Some agencies, such as the Bureau of Federal Revenue, have themselves become so autonomously fragmented that contradictory decisions arise within single agencies. A more numerous group of agencies stand apart from both the federal executive and the federal legislative body. Nobody seems to know the exact total of both types. Estimates run as high as 2,500.

Classified in respect to function, perhaps the majority of these agencies can be reduced to the following categories:

1. Monetary and fiscal agencies, including collectors of revenue
2. Quasi-judicial agencies
3. Procurement agencies
4. Regulatory agencies
5. Agencies concerned with domestic security and order
6. Conservation agencies
7. Subsidizing and welfare agencies
8. Agencies engaged in production and distribution
9. Agencies, both military and civil, engaged in the preservation of national security, the conduct of foreign relations, and the promotion and protection of foreign trade and foreign investments

For present purposes I am mainly concerned with the agencies that conduct foreign relations, including the promotion and protection of foreign trade and investments and the expenditure of public funds for these purposes. But a few more general remarks about the broad setting may be in order.

The more or less unintended consequences of big government are numerous and often oppressive or even fatal for personal liberty and national prosperity. The following list is probably incomplete:

1. Enormous and often wasteful expenditures of public funds
2. A federal debt approaching $300 billion
3. Federal taxes which take an average of more than 20 per cent of the national annual income
4. Draining of the sources for state and local revenues as well as a growing tendency toward double taxation
5. A propensity to transform national elections into grand auctions in which rival candidates bid against one another with the people's money for the votes of the electorate
6. An inflation that has reduced the purchasing power of our dollar to less than 47 cents in comparison with its purchasing power in 1939
7. The linking of wages and salaries of federal employees and office-holders to the inflationary kite, thus removing a major bureaucratic motive for preventing the continuous rise in the cost of living
8. Curtailment of personal freedoms, particularly freedom to spend, invest, and conduct private business enterprises
9. Gradual substitution of government economic activity and government doles for private self-reliance, initiative, ingenuity, and industry

In its attempts to promote global justice, prosperity, and peace, our federal government has granted and loaned a total of more than $90 billion, without counting the ad-
ministrative costs of the numerous international organizations established largely at its behest since 1945. The United States has forced its taxpayers to provide from one-third to more than one-half of the compensation of these international income tax-exempt payrollees. Compulsory spending for foreign aid has been utilized repeatedly as an argument for extravagant federal appropriations for domestic purposes. In line with governmental attitudes and practices acquired and cultivated in the foreign-aid field, the federal government now employs funds taken from the taxpayer to induce or force state and local governments to intervene in various private sectors or else to accept federal intervention.

Federal Promotion of Foreign Trade and Foreign Investment

I NOW INVITE attention to trade and investment promotion in the international sphere. Probably necessary in some instances, if foreign governments cannot be dissuaded from taking similar action, it is the sort of activity that tends to break through all restraints. Already it involves more agencies, bureaus, and commissions than I can enumerate here, and no doubt it likewise involves considerable overlapping and overstaffing. Important in this category are the Export-Import Bank, the Tariff Commission, the Bureau of Foreign Commerce, an Office of Tourism, the Commodity Credit Corporation, the General Services Administration, commercial and agricultural attachés scattered around the world, an agency in charge of trade fairs, a host of bureaucrats in the State and Agricultural Departments busy with the negotiation of sales and barter agreements required by Public Law 480 of 1954 and subsequent amendments, legislation designed to dispose of farm surpluses by means of grants, sales, and barter—all these and many other agencies and employees are involved.

Subsidies are provided for the Merchant Marine and International Airlines. Attempts are made by federal bureaucrats to manipulate import quotas for petroleum, sugar, and other commodities in order to provide foreign countries with dollars for the purchase of our exports. And our wool-growers are given bounties for the same purpose. Capitalists who invest their funds, equipment, and skills abroad are guaranteed by our government against almost every hazard except bad judgment and defective management. A billion dollars in such guarantees is already authorized. (Ironically these guarantees apply only to new investments. The Cuban and Bolivian expropriations and confiscations revealed that no such guarantees are provided for older investments.) Such guarantees, however, undermine any determination to exact prompt and adequate compensation for losses of capital in sugar, petroleum, tin, and other enterprises. Finally, the large grants and loans made to foreign countries in connection with our so-called “mutual-assistance” programs are motivated in part by the desire to promote exports of capital goods as well as consumer goods. And if, in the process of stimulating exports, a number of industries producing primarily for the domestic market are injured by the manipulation of tariffs and import quotas, these industries must be compensated by federal subsidies to both their owners and their workers. Free enterprise and individual liberty would be far better served by international to desist from the utilization of these complex and costly efforts to promote trade and investment.
Foreign-Aid Programs and the Public Sector

The total cost of our foreign-aid programs for fiscal years 1946-1961 has been estimated, as already noted, at some $90 billion in government grants and loans. But this does not include the many millions contributed by the federal government to the administrative expenses of a multitude of international organizations, global and regional, established during the postwar period, many of them at the urgent suggestion of our high officials.

Whatever doubts we may have about the talents of our politicians and bureaucrats in the conduct of foreign relations, their talent for the multiplication of public agencies must be admitted. The total which they have sponsored for the management of international relations and the promotion of universal prosperity and peace during the years since the end of World War II is certainly not less than seventy-five. And in addition to expensive participation in all these organizations of an international or regional type, the federal government has set up numerous special organizations of its own for the purpose of engaging partly or exclusively in foreign-aid programs. Among the latter are the Export-Import Bank, the International Cooperation Administration, the Development Loan Fund, the United States Information Agency, the Office of Cultural Relations, the Peace Corps, and several agencies charged with administering the provisions of Public Law 480 and with the task of bartering farm commodities for stockpiles of minerals and metals. Because of overlapping between these and the many international organizations, coordinating agencies are beginning to be created—and surely we shall soon have coordinators to coordinate the coordinators.3

I have my doubts regarding the inevitability of the course of world politics (supposedly) forcing our top-level politicians to attempt too much too soon in setting out to redeem the inhabitants of our planet. More pertinent for this occasion is an attempt to assess the weight and quality of our performance since World War II. Does the postwar participation of our country in world politics show or promise more satisfactory results than were achieved by the efforts of Woodrow Wilson, F. D. Roosevelt and their collaborators? I have not been able to put aside my doubts about the possibility of attaining within any short timespan the announced goals of freedom, justice, prosperity, and peace for all mankind, particularly through the economic means employed by our government.

Except for the threat of Soviet aggression, most of Western Europe, owing in part to the economic assistance received from the United States, probably is in a much better condition than at any time in the past. But a very large part of the rest of the world is in a state no better, if not worse, than it has suffered for centuries. In the Orient, in Africa, and in much of Latin America, turbulence and violence and extreme economic and social tensions, partly caused by the glowing expectations aroused and fostered by the United States, the United Nations and its special agencies and the utopian promises of the Soviet bloc, are hampering political, economic, and social progress. Growth in population is outrunning growth in production, and production is impeded by statism.

Thorough inspection of our assistance programs has revealed mismanagement, waste, and corruption wherever such inspection has been made: in Laos, Cambodia, Korea, Formosa, South Vietnam, and Iran;

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in Haiti, Bolivia, and Peru. Although most of those guilty of corruption are natives of the various countries, much of the waste and inefficiency must be charged against the agents and agencies of the United States. If despots are now fewer in Latin America than before the programs were initiated, despots have become more numerous in the rest of the underdeveloped world (e.g., Ghana, Egypt, Indonesia, to name a few). The immediate benefits of our aid, such as they have been so far, have rarely reached the masses of the people. The major part of our so-called "Free World" is neither free nor prosperous, and we are gravely depleting our resources in attempts to bring freedom and prosperity to them.

Our noble intentions and our benevolence have rarely developed gratitude or confidence, good will or respect. Governments which formerly asked for help as a favor are now demanding it as a right, and threatening to join the Sino-Soviet bloc of our help is denied. Thinly veiled blackmail is becoming a habit in many instances. Neutralism with reference to the global conflict between totalitarian tyranny and political, personal, and economic freedom is spreading in the Orient and Africa, and even in the Western Hemisphere. Dependence upon government rather than private initiative and enterprise, fostered probably for the most part unintentionally—by our aid programs, is being increasingly emphasized almost everywhere. Our government has not even been able to negotiate a consensus in respect to the Communist regime set up by Fidel Castro in the Caribbean danger zone.

Hardly anywhere in this vast and populous underdeveloped world, I repeat, can the impartial observer discover a strong determination to promote the private sectors of national economies and contrive protective equilibriums against the encroachment of the public sectors. If any exceptions are to be found, they might be found in Latin America—maybe in Argentina, Peru, or Colombia, or in some of the small countries of Central America—although the evidence is not yet convincing to me. Nor do I believe that our cheap public loans and grants will serve to promote the private sectors in these countries; on the contrary, there are already indications that free funds are likely to be used to buy out foreign holdings of private enterprise and expand the public sectors.

It is difficult to discover facts showing that any of these Latin neighbors are more favorably disposed toward private enterprise, than before they began to receive economic and technical assistance from our government. Public ownership and operation of the means of production seems to be spreading in most of the nations south of the Rio Grande. The public sector, which has long included telegraph systems and a few railways, most of the locally-owned steamship firms, a few telephone systems, and several electric utilities and water and sewer installations, has now taken over many more of these, and has begun to add to them, beginning with the petroleum industry (after the earlier Mexican and Argentine examples) and extending to banking, finance, and insurance, the new steel plants, the mining industry, broadcasting and television, and several others.

Price stabilization and production controls are expanding in agriculture—and the United States government, at the recent conference in Punta del Este, and on other occasions, has agreed to speed this movement into the public sector. The state bureaucracies are growing like mushrooms during the rainy season. Many of the state enterprises incur deficits year after year so that inflated currencies continue to purchase less and less. But, as I have said, I have not succeeded in ferreting out any
convincing evidence of a strong disposition to reverse or even interrupt the general trend. Nothing that our government can do, or seems willing to do, appears likely to redress the balance and create the equilibriums required for the efficient functioning of stable national "mixed economies."  

Meantime, our foreign policies, political and economic, have fostered the advance of this country's public sector until it threatens to crush the private sector by heavy taxes, a maze of regulations and controls, and increasing competition. Although our foreign policies have not initiated this expansion, these policies have accelerated the advance, and accelerated it more than has been necessary in order to deal with the crises of our century.

**Suggestions Regarding Policy**

In spite of all these pessimistic utterances and apparent defeatism, however, I am still an optimist with respect to my own country and a few others in the Western world, provided our people and theirs can be aroused from their apathy.

I propose an appealing statement of freedom's basic creed. My personal belief is that the creative spirit and the energies of the individual are the major impulses of all progress, and that every restraint imposed upon them not only retards progress but hampers the pursuit of happiness as well. Every expansion of government—i.e., of unappealable power by men over men—except expansion for the purpose of preserving order, safeguarding national security, promoting justice, and preventing monopoly constitutes a reduction of the liberty of those governed.

Regarding every proposal to multiply the functions of government, this fundamental question should be asked: Does this proposed new function restrict the creative spirit and energies which freedom provides? This ought to be the crucial test; and whatever the language employed to clothe this basic creed, it should be constantly reiterated by all public officials and by all who take part in the formation of public opinion. Any political, economic, or social order established upon a widely different foundation is bound to weaken and eventually destroy the principle of the sacredness of the individual human being and his inherent rights.

To the extent that we feel this nation must assume global responsibilities in the national interest, I propose that our foreign policies should be designed to extend this creed to other nations and peoples, and that every operation in the realm of foreign affairs should harmonize to the maximum extent possible with this creed; that departure from it in the name of expediency should be reduced to an absolute minimum; that representatives of our government charged with the management of our external relationships and interests be selected in as strict accord with principle as possible; and that vigorous and tactful efforts be made to persuade nations and peoples receiving our support and assistance to act in harmony with it. This will mean, of course, that our aid may have to be cut off from some of the ninety-seven countries to which it has been granted, but perhaps most of these are beyond our redemptive powers anyway if they cannot be induced to accept our philosophy of the individual. This may likewise mean that not a few of our incumbent statist bureaucrats, both at home and overseas, should be removed.

I must confess that those who are en-
gaged in this global effort to accelerate the economic and social progress of this vast aggregation of retarded nations and peoples arouse my deepest sympathy. They arouse my sympathy because, like the leading actors in a classical Greek tragedy they are likely to be doomed to frustration and failure. According to my view, there is only one way to develop the underdeveloped inhabitants of this earth without doing violence to human dignity and human rights, and that one way is freedom’s way: free enterprise, hard work, honesty, efficiency, a long preliminary time span of low wages and fairly high profits regularly and prudently invested, and a government that confines itself mainly to improving transportation, education, and health and providing conditions that will foster private investment, both domestic and foreign. Unless the many millions now said to be involved in this “revolution of rising expectations” can be convinced that austerity must precede affluence and expansion of capacity to produce must be achieved, before launching a multiplicity of welfare programs, their anticipations will never be realized. Unless they move along this highway in their pursuit of higher levels of living and happiness, the economic aid that the more affluent nations can provide them, the overseamen that may be sent to assist them, will do them little good.

Perhaps we can find some reassurance in the address by Robert L. Garner, President of the International Finance Corporation, delivered on September 21, 1961, at the annual meeting of the Board of Governors in Vienna. I conclude with a few quotations from it:

Obviously there is need for governments to provide the basic facilities and services. To do this in adequate measure will strain their human and financial resources. It seems sensible, therefore, to give the greatest scope to private initiative and capital in all fields which are not necessarily in the public sector.

There is convincing proof that this is the most assured method of getting development. The most productive economies which have brought the highest standards of living to the most people have been those which have permitted private initiative to control the widest range of activities. This system has worked in Europe and Japan with the long established societies.

. . . . within a few weeks I shall retire, I have no selfish interest to serve. I now speak objectively and I shall state my convictions.

The first is that government-to-government financial aid cannot successfully be used to gain and hold political advantages for the country supplying the funds. Rather than making friends, bilateral financing between sovereign countries tends to create antagonisms and distrust. I have observed that within the non-Communist world the nations most friendly to each other are those between which there has been little or no intergovernmental financing. Contrariwise, the more one government has loaned or granted to another, the greater probability of suspicions and antagonisms. I believe the record gives support to my observations.

The great developments of private enterprise have been nurtured on private, not public funds. In the long run business will not continue to be private if it depends unduly upon public credit. Furthermore, appropriations of public money are limited, and may well at any time be cut off, whereas private capital is an ever growing stream. Private capital is constantly refreshed by that generated within business and by the savings of the people.
NOTES

1Professor Calvin B. Hoover’s The Economy, Liberty, and the State, Garden City, New York: Doubleday, 1961, is a cautious treatise on this subject, dealing, however, only with Europe and the United States.

2The World Almanac contains a long list of these agencies and commissions. Consult U. S. Government Manual for fuller information. Among the functions listed, there is considerable overlapping. Among the ones which have expanded most are those involving regulation, conservation, subsidization and welfare, and those related to national security and foreign trade and investment. Production and distribution of commodities include water for irrigation, electric power, the repair of ships, and worldwide operation of housing and hotel facilities and post exchanges, to mention only a few of the most important.

3This and the preceding paragraph are based on the Hearings of the House Subcommittees on Appropriations for the State Department, the U. S. Information Agency, and the International Cooperation Administration. I refrain from a mass of detailed citations.

4The following works contain impressive data on Latin-American propensities to expand the public sector: Harry Stark, Social and Economic Frontiers in Latin America, Dubuque, Iowa: Wm. C. Brown, 1961; J. Fred Rippy, Latin America and the Industrial Age, New York: Putnam’s 1947; and British Investments in Latin America, Minneapolis, Minnesota: University of Minnesota Press, 1959. Consult especially the chapters on industry and public services, including railways.

Congressional Record, Sept. 23, 1961, pp. 19799-801, contains an account of an electric-power seminar held in Mexico City during the previous August. Written by Alex Radin, a public power advocate from the United States who attended the conference, it points out that the governments of Latin America own and operate 60 per cent of the region’s installed electric-power capacity and that most of these governments are advocates of the further expansion of the public sector into this phase of their economies. The conference was attended by representatives from the United Nations and its special agencies as well as from the Latin-American countries and the United States.

Congressional Record, Sept. 25, 1961, pp. 19846-854, offers an illuminating discussion of the shortcomings of “Mutual Assistance” by Senator Prescott Bush of Connecticut who had just returned from a conference of representatives of various multilateral financial agencies engaged in efforts to speed the development of the retarded countries. Senator Bush quotes at length from the high officials of the global banking organizations: World Bank, International Finance Corporation, International Development Association, and International Monetary Fund. I emphasize this quotation from the head of the IFC:

Over the past fourteen years I have visited some fifty countries, most of them in earlier stages of development. The most substantial progress I have observed has come from the private sector . . . .