We live in an entrepreneurial economic system. Entrepreneurs – the managers of business and government enterprises – are people who make the day-to-day decisions on production schedules, employment hiring and firing, trading activities and investment spending.

The difference between business and government enterprises is that the former are owned by individual investors rather than the community at large. Business managers respond to opportunities for profit to employ workers and create income in the private sector. Managers of government enterprises (for example, the Tennessee Valley Authority, public schools systems, the London Underground, etc.) are civil servants who provide employment and generate income in response to the legislative mandates given to them.

The production decisions of private sector entrepreneurs about the profitability of what they can produce is the primary determinant of whether our free market economy will suffer from unemployment, or whether we will achieve a state of economic bliss where all who want to work can. The ability to earn one’s income provides dignity and self-esteem to each individual. As long as there are unemployed people who want to work for a living, a society that requires that some individuals do not have the opportunity to work cannot be called civilized.

If managers of business enterprises believe they cannot profitably hire all who want to work, then there is a role for government in a civilized society to deliberately encourage additional spending, preferably on productivity enhancing capital goods, to create jobs today and to increase capacity to provide more goods for future generations. If today’s private demand for new profitable investment is so satiated that it does not produce full employment, then it could be necessary for the central government to embark on projects that may appear to be wasteful when viewed in terms of simple profit maximization by individuals in the private sector.

In a free market economic system, as Keynes noted:

Pyramid-building, earthquakes, even wars may increase wealth. . . . It is curious how common sense, wriggling to escape from absurd conclusions,
has been apt to reach a preference for wholly ‘wasteful’ forms of loan expenditures [government deficits] rather than for partly wasteful forms, which, because they are not wholly wasteful, tend to be judged on strict ‘business’ principles. For example . . . digging holes in the ground known as gold-mining which not only adds nothing whatever to the real wealth of the world . . . is the most acceptable of all solutions.

If the Treasury were to fill old bottles with banknotes [currency], bury them at suitable depths in disused coal mines, which are then filled to the surface with town rubbish, and then leave it to private enterprise on well-tried principles of laissez-faire to dig up the notes again . . . there need be no more unemployment . . . and the real income of the community and its capital wealth also would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but, if there are political and practical difficulties in the way of this, the above would be better than nothing.

Conservatives, on the other hand, argue that if only the government would get out of the way – get off the entrepreneur’s back – the resulting ‘laissez-faire’ free enterprise economy will guarantee, at least in the long run, prosperity and full employment.

In the absence of government intervention, however, market economies have had a rather checkered employment history as they have suffered from severe, and sometimes lengthy, bouts of unemployment. The conservative retort to this historical record is that in the short run, unemployment is the necessary price we have to pay to achieve the long run goal of prosperity. As an economics news editor of the Wall Street Journal, Alfred Malabre, stated in his book Beyond Our Means, ‘slumps act to cleanse the economy of strains and distortions that normally mark a peak of the business cycle’, thereby drawing an implicit and distasteful analogy to the necessity of taking a laxative to purge the digestive system of the excesses of eating three square meals a day.

But the prosperity peak of a peacetime business cycle is the only time that a market enterprise system comes close to providing full employment and economic well-being for all its citizens. Surely that is a condition to be nurtured rather than purged. A civilized view suggests that the unemployment of business slumps inflicts significant and unnecessary costs on workers and employers alike. Moreover, even if this price is paid, there is no guarantee that prosperity will inevitably follow the slump. Instead there is a perverse sort of Humpty Dumpty economics here – conservatives hope that if they can make the patient sick enough, he is bound to get better. For example, the 8 June 1995 issue of the New York Times reported