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Individualism and Government Intervention:

Is it a paradox？

L'INDIVIDUALISM ET L'INTERVENTION DE GOUVERNEMENT:

EST-IL UNE PARADOXIE?

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Abstract: Individualism is one of the most fundamental values, which helps to build the United States. It is a commitment to personal initiative, self-reliance and material accumulation. The principle upholds the superiority of free-market economic system and claims that individuals rather than any institution or group should be the core of society. Consequently, the government is traditionally expected to intervene in social life as little as possible. However, the government's involvement keeps expanding ever since the Gr[2]eat Depression, and the tendency seems strong. At present, there is hardly any aspect of social life left without government regulation. This paper will focus on one question: whether the expansion of government is a paradox to the underlying spirit of individualism. It concludes that the paradox does not exist. The expansion of government intervention is an inevitable result of social development and the inherent weakness of individualism. It is complementary to individualism rather than paradoxical.
Key Words: individualism, Social Contract, free-market economy, government intervention.

Résumé: L'individualism est une value les plus fundamentaux, qui l'aide à l'éstablir Les États-unis. C'est une commitement à l'initiative personalle, reliance sur soi, et accumulation matérial. Cette principle emphasie la supériorité de la système économique de free-market et claime qu'il fait les individueux, nons auquel institution ou groupe, sont le core de la société. Conséquentment, le gouvernement est expecté traditionallement à intervener en livre sociale le plus moins le plus possiblement. Mais, l'invovelment de gouvernement expande aisin que la Great Depression, et la tendencie est de plus en plus evidente. Maintenent, il n'y a pas une aspect de la livre sociale sons la regulation de gouvernement. Cette article centre sur une question: si l'expansion de gouvernement est une paradoxie au spirit de l'individualism. Elle conclude que cette paradoxie ne existe pas. L'expansion de gouvernement est une result inevitable de la progrèss sociale et la démerit inhéreté de l'individualism. Il est complémentaire, nons pas paradoxicale, à l'individualism.
Mots-clés: L'individualism, contract social, économie de free-market, l'intervention de gouvernement.

1. INTRODUCTION

Various schools of thoughts provide different definitions of Individualism. According to Alexis de Tocqueville, who was the first person associated individualism with the United States，

Individualism is a calm and considered feeling

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which disperses each citizen to isolate itself from the mass of his fellows and withdraw into the circle of family and friends; with this little society formed to his taste, he gladly leaves the greater society to look after itself. (Political Thought in America P296)

Tocqueville (1840) expounded over this definition further by giving it a social and political meaning. He wrote,

As society equality spreads there are more and more people who are though neither rich nor powerful to have much hold over theirs, have gained or kept enough wealth and enough understanding to look after their own needs. Such folk owe no man anything and hardly expect anything from everything from everybody. They form the habit of thinking of themselves in isolation and imagine that their whole destiny is in their own hands."(Ibid. P297)

Although Tocqueville's definition was formed more than one and half centuries ago, its essence remains valuable today. After the introduction of Tocqueville's definition, many scholars and politicians continue to investigate the definition of individualism. Their opinions may vary from one other to a certain degree, but most of them agree that individualism is a commitment to personal initiative, self-reliance, and material accumulation. The principle upholds the superiority of free-market economic system and includes the idea that the individual rather than any institution or group is the foundation of society. Government intervention was considered unnecessary and unfavorable. Consequently, for more than a century, the role of government remained minimal.

However, we cannot fail to observe that government intervention has been increasing ever since the colonial times, especially since the Great Depression in 1930s. Up till now, we cannot point out definitely even one sector in the society without government influence. This has inevitably caused a heavily debated issue on whether the expansion of government intervention is paradoxical to the principles of individualism.

2. ORIGIN OF INDIVIDUALISM

In order to better understand the impact of individualism in America, we would like to expand our analysis to investigate further the origin of individualism. If we observe closely the political, economical and cultural systems of the United States, we can easily conclude that the nation is greatly influenced by the principles of individualism. Indeed, we can even state boldly the U.S, other than any other nations in the world, is the best representative of the spirit of individualism. Thus, many scholars and politicians may come to the illusion that individualism was born out of the U.S. This view is not consistent with the history. In fact, just as Thomas E. Patterson analyzed in *The American Democracy, individualism* was actually brought from Europe (*The American Democracy P23),* although the U.S. did provide fertile soil for its development. The outlook of the first group of white American settlers was by no means formed spontaneously the moment they settled in the New Land, but shaped by centuries of European life, which, in turn, had been molded by Greco-Roman and Judeo-Christian traditions. The first group of settlers came to America to live out their ideas, not to think up new ones. Just as Paul Gagnon wrote in his *Why Study History,* "The first settlers did not sail into view out of a void, their minds as blank as the Atlantic Ocean…Those who sailed west to America came in fact not to build a New World but to bring life in a new setting what they treasured most from the old world."(*Why Study History* p47)

Among all the influential factors in the Old World, the Enlightenment movement ranks the top. Started in the 17th century, the Enlightenment movement sought to analyze nature rationally, with pure reason, and to find the laws that dominate the Universe. That is to say, the Enlightenment didn't leave everything to belief in God or intuition or revelation, but sought to elucidate the matter of truth by theory through a use of laws. The movement proved to be a great harvest philosophically. Many great philosophers presented their theories at that time, which in turn helped to shape people's ideology about individuals. Never before did the importance of individual earn so much attention. Among all these great philosophers, the U.S. is indebted most to John Locke and Adam Smith.

John Locke believed that, just as a person had a right to his own body, he had a right to his own labor and the fruits of that labor (*Second Treatise on Government* p216). Based on this belief, he argued that people formed a government to protect their property, lives, and liberty, and that this government could not properly act to harm or take away that which it had been created to protect. He declared that government must be restrained in its powers if it is to serve the common good. Locke advanced his political thought in *Second Treatise on Government* (1690). He argued that government could only properly function with the consent of the governed through their representatives; if the government acted improperly, it would have broken its contract with society and would no longer be a legitimate government. The people would have the right to revolt and the right to form a new government. (*Second Treatise on Government*, p216-18)

Locke's "social contract" theory found many adamant followers in the early America. One of the most prominent and devoted is Thomas Jefferson, who faithfully adopted Locke's theory in the drafting of *Declaration of independence.* His simple yet impassioned statement of faith in democracy resonated to present: "we hold these truths to be self-evident, that all men are created equal; that they are endowed by the Creator with certain unalienable rights, which among these are life, liberty and the pursuit of happiness." (*The* *challenge of Democracy* p64) Thomas Jefferson was an eloquent spokesman for a government of sharply limited powers. He believed that "a very energetic government is always oppressive. It places the governors indeed more at their ease, at the expense of the people (p85). In fact, he even considered regular revolts by the people to be healthy for a democracy, not unlike the way physicians of his time viewed bloodletting.

The U.S. Constitution was written 11 years after the "*Declaration of Independence*" with a different purpose. The declaration was a call to revolution. The Constitution would create a framework for government. Nevertheless, a concern for liberty was no less fundamental to the delegates at the constitutional convention in 1787 than it had been to the leader of the revolution. In order to offset the coercive force of government, the Framers choose to limit the government by confining its scope to constitutional grants of power, using power to offset power, i.e., the separation of powers. The separate branches are interlocked in such a way that an elaborate system of checks and balance is created. No institution can act decisively without the support or acquiesce of the other institutions. Legislative, executive, and judicial powers in the American system are divided in such a way that they overlap; each of the 3 branches of government checks the other's powers and balances these powers with powers of its own. In this way, the Constitution ensured that the government would be limited and the power would not be abused.

However, these measures are still a long way from satisfaction in the view of democratic-minded politicians. Although delegates to the Philadelphia convention decided not to conclude a list of individual rights (such as freedom of speech and the right to a fair trial) in the constitution, for the fear that such a list could prevent government from lawfully assuming powers, such as the abridgement of human rights, that were not authorized by the constitution. Moreover, the delegates concluded that a bill of rights was undesirable because government might feel free to disregard any right that was inadvertently left off the list or that emerged at some future time. However, these considerations didn't allay the fears of Americans who believed that no safeguard against tyrannical government should be omitted. They insisted, " [a] *bill of rights* is what the people are entitled to against every government on earth, general or particular and what no just government should refuse or rest on reference" (*We, the People* p74). After a serial of long and arduous debating, finally, the *Bill of rights* (1789) was added to the Constitution to further safeguard individual rights from the infringement by government.

The purpose of the Constitution—and especially the *Bill of Rights*—aims to limit government power over the individual, that is, to place personal liberty beyond the reach of government. By then, the principles of individualism were firmly established by the law, which undoubtedly would expand the impact of individualism greatly.

In the field of economics, it was Adams smith, the 18th-century economist, whose laissez-faire or free-market doctrine contributed most to the forming of government's economic policy. Adam Smith supported a severely limited government as a protection for the economic freedom of the individual. In his *the wealth of nations (1776),* h**e** argued for private enterprises as the most efficient means of production, leading to the growth of national wealth and income. According to Adam smith, private individuals and firms should be left alone - to make their own production and distribution decisions. Smith reasoned that when there is a demand for a good (that is, when people desired it), private entrepreneurs would respond by producing the good and distributing it to points where the demand exists. By the same token, when demand for a good declines, producers will cut back on its production and distribution. In a capitalist economic system, the incentive that drives this process is profit and the desire for profits is the "invisible hand" that guides the system toward the greatest welfare for all. Left to itself, Smith asserted, a capitalist economy will produce "a universal opulence extending to the lowest reaches of society" (*the American Democracy* p664). Adam Smith believed that freedom for individual economic and social advancement was only possible in competitive free market, unhindered by government intervention. Nonetheless, he argued that government must protect the economic freedoms—free trade, free choice of individuals to do what they want, to live where they wish, and to invest and spend as they see fit –by ensuring that the market remains competitive and honest through such governmental actions as the regulation of standard measurement, the prevention of the formation of monopolies, and the defense of the community. Adam Smith's free-market theory has provided the theoretical basis of government policy towards American business for more than 200 years. It remains the core of American economic policies although some new elements were added.

As we claimed earlier, individualism was actually rooted in the American's European heritage; however, America's vast open lands and abundant resources provided fertile soil for its development. The New World's vast wilderness and great distance from the mother country allowed a way of life that was unthinkable in the Old World. Although British kings and Parliament tried to stretch their authority across the Atlantic Ocean, the great distance made it possible for the first group of white settlers to govern themselves more fully than even they had anticipated. They also found in America more liberty, equality, tolerance, and opportunity than they had imagined. Europe's rigid aristocratic system was unenforceable in frontier America thanks to its availability of cheap or free land. It was easy for the ordinary people to obtain land and make a decent living independently. Thus they had no reason to accept servitude. The widely dispersed settlements made each individual only depend on his own effort to survive. Finally, the widely dispersed settlements also made local, self-government appropriate. Accordingly, a political philosophy concluding that equal citizenship rights and republican self-government was established. In a word, the U.S just as the historian Lowis Hartz wrote was "born free" (*The Liberal Tradition in America* p7). The uniqueness of the new land was once described vividly in Hector st. John de Crevecour's famous "letters from an American farmer." He wrote,

"It is not composed, as in Europe, of great lords who posses everything and a herd of people who have nothing. Here are no aristocratical families, no courts, no kings, no bishops, no ecclesiastical dominion, no invisible power giving to a few a very visible one; no great manufacturers employing thousands, no great refinements of luxury. The rich and the poor are not so far removed form each other as they are in Europe…. We are a people of cultivators, scattered over an immense territory, united by the silken boards of mild government, all respecting the laws, without dreading their power, because they are equitable. We are all animated with the spirits of an industry which is unfettered and unrestrained, because each person works for himself." (Political Thought in America p45)

With all these exterior and interior reasons, it's not surprising why individualism is regarded as one of the defining characteristics of America. It lies at the very core of American culture. (Habits of the Heart p142)

3. INDIVIDUALISM & GOVERNMENT INTERVENTION

As we observed in the previous sections, individualism is a fundamental value in the nation. It extols individual efforts and asks for little government intervention. As a result, government was expected to interfere as little as possible in the social life and this remained the true condition until the 1930s. Ever since then, however, the government's role has expanded at an unpredictable rate. This chapter will examine the history of the government intervention in economic life and social welfare, and try to justify that government intervention is not paradoxical to the principles of individualism.

3.1 The History of Government Intervention

3.1.1 The Early Role of Government

Traditionally, most U.S government leaders at the early times were reluctant to involve the federal government too heavily in the private shelter. Except for helping support the development of agriculture and granting financial support to companies building the railway system in the late 19th century, the government played little role in business affairs.

3.1.2 The Growth of Monopolies

Lack of government regulation led to economic practices that had bizarre results. As the American economy prospered throughout the 19th century, some companies grew so large that they were recognized as possessing "market power". This meant that they were powerful enough to eliminate competitions and to impose conditions on consumers rather than cater to consumer demand. The growth of billion- dollar corporations led to collusion among companies to control prices, much to the dismay of smaller businesses and ordinary consumers. Moreover, the expanding economy was more mechanized and this involved greater dangers to employees as well as to consumers.

Small businesses, laborers, farmers and consumers all began to clamor for protective regulation. Although the states had been regulating businesses in one way or another all along, interest groups turned toward Washington as economic problems appeared to be beyond the reach of the individual state government. It seemed obvious that "if markets were national, there would have to be national regulation"(*American Government* p623). The first national regulation policy was the interstate commerce Act of 1887, which created the first national independent regulatory commission, the Interstate Commerce Commission (ICC), designed to control the monopolistic practices of the railroads. Two years later, the Sherman Antitrust Act (1889) extended regulatory power to cover all monopolistic practices, including "trust" or any other agreement between companies, which are "in restraint of trade or commerce among the several states, or with foreign nations."(ibd.p623) But both of these acts and other latter efforts failed to meet the expectation due to the commitment of the court to laissez-faire.

During the 1880s and 1890s, the court increasingly reinterpreted the Constitution to protect business from taxation, regulation, labor organization, and antitrust legislation. In a series of landmark decisions, the court used the fourteenth Amendment, originally intended to protect freed slaves from state laws violating their rights, to protect corporations. The 14th Amendment declares that no state can "deprive any person of life, liberty, or property, without due process of law." By defining corporations as "persons" under the law, the court determined that legislation designed to regulate corporations deprived them of "due process." Using this reasoning, the court struck down state laws regulating railroads rates, declared income tax unconstitutional and judged labor unions "a conspiracy in restraint of trade"(*The American Promise* p706). The court also weakened the national government's regulatory power by mainly interpreting its commerce power. For example, in 1895 the court held that the American sugar refining company had not violated the act by taking over competitors because it was not restraining trade-- even though the sugar trust controlled 98% of sugar refining in the United States at that time. As a consequence of the court's decision, trusts continued to be formed in industry after industry. (*The Politics of Governing America* p388)

3.1.3 The Progressive Era

It was not until the progressives came into power during the first two decades of the 20^{th} century that further steps were taken to widen the government's role and to curb the trust. During this period, many of the regulatory acts were enacted. Among those were: the Clayton Act, which outlawed certain specific business practice such as charging different buyers different prices as a device for driving out competitions; the Federal Trade Act created the Federal Trade Commission, which was given the power to investigate interstate corporations and to issue cease and desist orders against unfair trade practices; the Federal Reserve Act was also enacted during this period, which offered the government the power to actually arrange the economy

3.1.4 The Return to Laissez—faire

After a period of validating a series of advanced social legislation during the Progressive Era, the court again joined the nation in attempting to roll back the reform tide, launching a powerful attack on the rights of the states and federal government to regulate business. The succeeding Coolidge and Hoover administrations in general, followed the laissez-faire policies of the prewar period. In October 1929, during the first year of Herbert Hoover's administration, the stock market crashed. The United States and the entire world entered the most severe and prolonged depression as it names The Great Depression.

The crash wiped out the savings of millions of people. Banks closed all over the nation, wiping out still more. The national income fell from over $80 billion in 1929 to $40 billion in 1932. Unemployment reached 13 million, and in some areas it was as high as 40 percent of the work force. Many people lived in makeshift shacks huddled on the outskirts of cities and towns. For many people soup kitchens and breadlines provided the only food. By the spring of 1932 thousands of people were facing actual starvation. (ibd.p390)

In the face of such a host of economic and social dislocations, however, Herbert Hoover still doggedly stuck to his rugged individualism principles, even as the nation slipped deeper and deeper into depression, He insisted the government's task was simply to promote private initiative and shouldn't intervene in the private sector. He argued,

"Even if the Government conduct of business could give us the maximum of efficiency instead of least efficiency, it would be purchased at the cost of freedom. It could increase rather than decrease abuse and corruption, stifle initiative and invention, undermine development of leadership, cripple mental and spiritual energies of our people, extinguish equality of opportunity, and dry up the spirit of liberty and progress". (Political Thought in America p440)

It is unfair to say Hoover was a do-nothing president for he had never neglected the worsening situation and had taken some ways to curb it. For instance, he created Farm Board, Reconstruction Finance Corporation, etc., but none of his initiatives turned the economy around. He insisted that only by the further development of voluntary cooperation within the community and a sense of its responsibility that can the complex problems be solved, not by the extension of government into economic and social life. (Readings for American Government P386) His insistence on individual self-reliance severely limited the role that the federal government could play in fighting the depression and thus helped guarantee that the economy would continue to slump. (The American Promise P914-18)

3.1.5 Roosevelt and New Deal

Statistics provide scaffolding for understanding the human dimension of the Great Depression. When Herbert Hoover took office in 1929, the American economy stood at its peak. When he left in 1933, it had reached its 20^{th} century low. More than thousand banks had shut their doors, and depositions had lost more than $2.5 billion. In 1929, national income was $88 billion. By 1933, it had declined to $40 billion. In 1929, unemployment was 3.1%, one and a half million workers. By 1933, unemployment stood at 25%, representing twelve and a half million workers (*The American Promise* P918-19). The demand for government action to relieve the hardships created by the depression of the 1930s was intense. The Roosevelt administration responded promptly with what has been called a "tidal wave" of federal programs (the so-called "New Deal") that permanently changed the role of government in national affairs. (*The Challenge of Democracy* P77-78)

The New Deal legislation extended federal authority in all fields, notably banking, agriculture, social security and public welfare. It gave immediate attention to labor problems, creating minimum standards for wages, hours, relief and security. There is virtually nothing in the United States that is not affected by some kind of government regulation. Manufacturers must tell exactly what is in a can or box or jar. No pharmaceutical drug can be sold until it is thoroughly tested and then approved by a federal agency. Many types of businesses must pass inspections by government workers for compliance with health, safety or both types of regulations. Automobiles must be built according to safety standards, and must carry pollution control devices. Price for goods must be clearly marked and advertisements must be honest. These were just a few of the ways in which the government currently protected consumers.

Laws and regulations also protected American workers in many ways. Laws prohibited discrimination in hiring; forbade hiring children for most jobs and set rules for using children in others, set standards for working conditions; and protected the rights of independent labor unions to organize, bargain and strike peacefully. (*The Outline of American Economy* p109-10)

The operation of Roosevelt's New Deal never proved to be easy. In fact, critics existed all through the process, especially after the ending of the early rush of excitement. Business expressed open hostility to the philosophy and practice of the New Deal. Conservatives insisted that New Deal charges had been too radical, undermined economic stability, and threatened American democratic values. The most extreme example of anti New Deal agitation was the American Liberty League, founded in 1934 as the NIRA (National Industrial Recovery Act) came under bitter attack. The League decried bitterly the New Deal as a betrayer of basic constitutional guarantees of freedom and individualism and attacked furiously almost every feature of the New Deal. The AAA (Agriculture Adjustment Act) was a "trend toward Fascist control of agriculture", relief programs marked the end of democracy, and the NIRA had plunged the nation into " a quicksand of visionary experimentation." (*The American Promise* p940) The court was also proved to be an obstacle. Much of the New Deal's economy legislation was ruled to be unconstitutional. However, the welcoming change appeared in 1937, when the court finally passed the NIRA. The Supreme Court had ultimately recognized the obvious fact that industrial economy is not confined by states boundaries and must be subject to some level of national regulation if it is to serve the nation's needs and interests. It was a principle that business itself also gradually accepted. (T*he American Promise* p940-41) The New Deal made great achievement, the nation's banking industry, for example, was saved in the 1930s from almost complete collapse by the creation of a federal regulatory agency, the Federal Deposit Insurance Corporation (FDIC). By insuring depositors' savings against loss, the FDIC gave depositors the confidence to keep their money in bank, enabling many banks to remain solvent despite the Depression. (*American Government* p5-6) The result of presidential election in 1936 served as a perfect acknowledgement of the New Deal. For despite all the complaints leveled at the New Deal, Roosevelt won an even more decisive victory than he did in 1932. He took 60% of the population and carried all states except Maine and Vermont. (www.usembassy.de/usa/etexxts/history *Outline of American History*, Chapter10.)

As many critics of Roosevelt and his administration have pointed out, the New Deal did not end the depression, it was the tremendous wartime orders for military manufactures during the World War II actually dragged the economy out of a stagnant pool. Nevertheless, the effort succeeded in reversing the economic decline and restoring the nation's confidence. By 1935, the total industrial output was $29 billion more than that of 1933, and the employed population was increased by 4 million too. (*《美国文明》*P124-26)

The influence of the New Deal was much more far-reaching than this. It started what became a revolution in thought regarding the social and welfare responsibilities of government. And the New Deal not only started a revolution in the role of government in the economy, it achieved much in such a revolution. Although battles have been fighting concerning the proper role of government in the economy until today, the fundamental principle that the government can't stand to one side and merely watch what happens to the economy has no longer been open to serious challenge ever since. Furthermore, although throughout history government on occasion tried to manage the economy, the effort in all fields was either rudimentary or episodic. It was only after the New Deal, the government was expected to be involved routinely in all activities. Even president Reagan, (we may come to him in the next paragraph) who envisioned much less regulation, lower taxes, and much less direct activity by the federal bureaucracy than in the administrations preceding his, saw the role of government as being quite different, he, too considered it central. (*Government and the Economy* P393)

3.1.6 Post-World War Ⅱ Development to Present

Government intervention in the U.S. economy began increasing rapidly following the Great Depression of the 1930s, and continued to grow through the 1960s and into the 1970s, especially due to the Civil Right Movement and growing concerns over environment. The federal government increased its economic regulatory activities through such measures as the Occupational Safety and Health Act, Consumer Product Safety Act, Federal Coal Mine Health and Safety Act, Consumer Protection Act, and a series of environmental protection measures including the Clean Air Amendments of 1970, Water Quality Improvement Act, Safe Drinking Water A ct, and Resource Conservation and Recovery Act. (*Governing by Consent* P79-80). But beginning in the late 1970s, the trend changed direction. During this period, the nation was characterized by spiraling inflation, increased federal budge deficits, and intensified foreign competition, high employment and stagnant demand. Consequently, a large number of Americans began questioning the usefulness of what they considered excessive government regulation. Started in 1980s, aiming at stimulating the private-sector initiative and investment, a drive to cut government spending and levels of taxation and in other ways to reduce governed influence over the private sector was spearheaded, especially under the Reagan Administration. President Reagan succeeded in reducing the total number of regulations issued by federal agencies to such an extent that the number of pages in the *Federal Register* dropped from 87,000 in 1980 to 49,600 in 1987. (*American Government* P624) Toward the end of the Regan administration, the trend shifted once again. However, since 1995, there has been yet another turn in the regulatory policy cycle.

In conclusion, although the history of government intervention is full of regulation and deregulation, yet, it is a fact that the government has already become involved in nearly every nook and cranny of economic life. It is truly unlikely that the overall level of governmental regulation in the United States will be significantly reduced. Many people may pose such a question whether the expansion of government intervention is paradoxical to individualism. In the next section, I would like explore further into the reasons for the growth of government intervention to justify this phenomenon.

3.2 The Reasons for the Growth of Government Intervention

3.2.1 The Weakness of Individualism

As we have examined earlier, Americans beliefs about economic rights and opportunities have been influenced greatly by a commitment to individualism. They have an unusually strong belief that personal efforts are the key to success. And we should acknowledge that individualism has indeed contributed much to America's economic progress, but the downside exists. The first observer on this aspect of individualism again was Alexs De Tocqueville, who in the 1830s questioned whether individualism was altogether a good thing. He was concerned that individualism would lead Americans to value their private lives over citizenship and their self-interest over the public interest. In *Democracy in America*, he wrote,

"Democratic communities ….are constantly filled with men who, having entered but yesterday upon their independent condition, are intoxicated with their new power. They entertain a presumptuous confidence in their own strength, and as they do not suppose they can henceforward ever have occasion to claim the assistance of their fellow creatures, they do not scruple to show that they care for nobody but themselves". (Individualism and Equality P227)

Many other scholars have since reached the same judgment, concluding that individualism is undesirable-as well as much that is admirable- in American society. Patterson suggested that individualism is idealistically a commitment to human potential and accomplishment, but it can also devolve into selfishness. Untempered materialism diminishes public life and creates a selfish reluctance to share society's resources with the less privileged. In the era of laissez-faire capitalism, government left business alone on the assumption that the free market is largely self-regulating and will ultimately produce for society the greatest possible social and economic benefits. As it turned out, though, unbridled capitalism became destructive of individualism. Large trusts dominated nearly every sector of the economy and virtually controlled the lives of their workers. Consequently, just as Woodrow Wilson mentioned in one of his speeches:

"The lines of endeavor have more and more narrowed and stiffened; no man who knows anything about the development of industry in this country can have failed to observe that the larger kinds of credit are more and more difficult to obtain unless you obtain them upon terms of uniting your efforts with those who already control the industry of the country and nobody can fail to observe that every man who tries to set himself up in competition with any process of manufacture which has taken place under the control of large combinations of capital will presently find himself either squeezed out or obliged to sell and allow himself to be absorbed." (Political Thought in America P423)

3.2.2 The weakness of Free-Market Economic Policy

Adam Smith's free-market theory held that natural economic forces would balance themselves out. The law of supply and demand would regulate prices. When there was too little supply, the price would go up, and this would automatically increase the supply. When there was too much inventory, the price would go down, and this would automatically decrease the supply. The efficient producer would succeed, the inefficient would fail, and this would keep the productive capacity of the country about in line with the needs for consumption. When credit was needed, bankers would supply it, when too much credit had been extended; there was a period of general inflation cutting down the debt. (*Political Thought in America* P427) However, as the nation marched into the middle 19th century, the foundation on which the free-market economic policy based no loner remained the same. With the power and force of organization coming into economics, we can no longer rely on the economics of balance to take care of human needs.

As Adolph A. Berle, Jr. observed, originally this collected around great investments of capital in huge plants, such as railroads, steel companies and the like. But as the economic machinery adapted itself to the idea of great organization to run these plants, it became possible to have great organizations only partly dependent upon such plants. The effect of organization will distort and delay the forces leading to a balance. A falling price does not mean a falling supply under an agricultural system plus a credit system so organized that when the price went down everyone tried to produce more wheat, or more cotton or more sugar in order to get out of debt. A big inefficient plant does not shut down because it cannot make a profit. It reorganizes, cuts its debt to nothing, and goes right on. Then it has no interest charges to pay, and only a small investment. It can accordingly undersell a more efficient producer, and drive him into bankruptcy, too. According to Berle, only after the entire industry has been bankrupted, do inefficient plants actually begin to go out of business, and this process may take 15 or 20 years, during which time the capital, the labor, the customers and the industry generally, will all suffer from the effects of a disorganized and unsound condition. The old economic forces still work and they do produce a balance after a while. But they take so long to do it, and thus in the course of it, may leave "half of the entire country begging in the streets or starving to death."(*Political Thought in America* p429-32)

Furthermore, since the incentive to drive the free-market economic process is the desire for profit, certain goods and services, called public goods, cannot be supplied effectively through the free market. For example, few businessmen would take basic scientific research since the products of basic research generally are not patentable. They are also unlikely to have immediate and direct practical results that would induce private firm to finance them, although in the long run they are immensely important in very practical ways, providing a basis for technical improvements with wide-ranging consequences. The fields of urban redevelopment and air and water pollution control will also require increasing governmental activities, since much of what has to be done in these areas cannot bring direct profits to individual businesses or investors.

3.2.3Economic Reasons

The extent to which government plays a role in the free-market economy depends not so much on theories and principles as on the evolving facts of economic life. In a comparatively simple farm economy, the economical tasks of government are also relatively simple, since those who influence the economy most—the farmers or small businessmen- are able to be their own masters without much interference from others. But as the economy becomes more industrialized, the locally based economy gives way to an economy that is national in scope and impact. The economical task s of government cannot remain as simple as before.

3.2.3.1 The Changeover from a Local to a National Economy.

The early American economy was largely local because it was mainly a farm economy. Many food products could not be shipped over long distances. Means of transportation were often lacking, and the technology of modern shipping –refrigeration and safe packaging –was not as yet available. As the nation became industrialized, as the railroads, highways, and airlines revolutionized transportation, and as the telegraph, telephone, radio, and space technology abolished the factor of distance altogether in communications, the economy increasingly became a national economy.

The key industries, in particular, produce and market their goods and services all over the country. While automobile manufacturers are heavily concentrated in the Detroit area, their cars are sold all over the nation and throughout the world; in addition, they maintain assembly plants and parts-and-repair facilities in many states. (*American Government in the 20th century* p446) Major steel companies have plants in all regions of the country. Industrial disputes in key industries generally affect the whole country, and settlements are made not for this or that state or region but for the whole industry-which means the whole country. Even businesses that were once strictly local, such as hotels and restaurants, have often become part of interstate commerce, as more and more persons travel on superhighways, freeways, and turnpikes, which span the nation from coast to coast.

This interdependence of economic activities throughout the nation has not only brought out the importance of the national government in dealing with economic problems; it has also added to the role of government on all levels. As economic activity becomes complex, as frictions and conflicts increase, government becomes an indispensable instrument for keeping a reasonable balance between these interests and activities.

Moreover, in the new, scientifically- based economy, pioneering itself calls for more government action. The old-style farm pioneer on the frontier could do his pioneering largely with his own energy and imagination—although even then, in many cases the government had given him his land in the first place. But the pioneer of today who works on a new drug or on new uses of atomic energy operates on an area in which there are elements of public health and safety that must be regulated by government.

3.2.3.2 The Rise of Big Units in Economy

In the early American farm economy, individuals carried on most activities, as is still largely true today in farming –although it is a constantly shrinking segment of the economy. As farming was gradually replaced by industry, commerce, and services as the mainstays of the economy, the operating units became larger and larger, since the vast continental market of the United States provided an ideal outlet for mass-production techniques.

As business organization developed larger and larger units, there grew in its shadow larger and larger labor unions. The decisive acting and bargaining unit was no longer the individual, but the group. In a labor dispute, for example, bargaining between the individual steel company and its employees was replaced by bargaining between spokesmen representing the entire steel industry and spokesmen for the steel workers' union, speaking for all organized workers in the industry.

Whatever the relations between big economic units may be, the public, and therefore government, has a stake in them. If the relations between management and labor are too friendly, there is the danger of collusion (secret cooperation for objectionable purposes). In a wage conflict, for example, management may give in to excessive wage demands and then simple pass on the increase to the consumers in the form of higher prices. At the other extreme, relations between management and labor may be so tense that long strikes or lockouts occur in an essential industry or service, such as steel or railroad transportation. In either case, the public has a vital interest in the relations between such big economic units; since the individual consumer is powerless to influence events very much, government alone can speak for the unorganized public of consumers.

3.2.3.3. The Importance of Business Cycles

A basically agricultural economy is fairly stable. Farmers produce a large portion of what they consume. Also, there is a comparatively stable demand for farm products, since people have to eat about the same amount in good or bad times. Conversely, in an industrial economy, there is much less stability. The market is more sensitive to changes at home and abroad. Decisions of one major industry or one big corporation can influence the whole economy.

If, for example, automobile companies expect—rightly or wrongly—that they will sell fewer cars within the next year or two, they will order less steel. Since automobile manufacturers use about one fifth of all steel produced in the United States, such a decision may have great impact on the steel industry—as well as on other industries that supply steel companies with many goods and services. By contrast, if automobile companies anticipate growing sales, they will not only order more steel but also spend much money on new and improved production facilities. As a result, there will be more construction work, more orders for tools and dies, and more employment for men and women in many industries. Thus, business activity runs in cycles of slump and prosperity. If decreased business activity is left unchecked, it may worsen into a depression. If prosperity remains uncontrolled, it may reach a feverish stage, burst, and quickly turn into a catastrophic depression. This happened in 1929, when the greatest era of prosperity changed, within a few months, into the worst depression in the nation's history.

3.2.3.4. The Effect of World Economic Conditions

Finally, it must always be remembered that, powerful and strong though the American economy is, it does not operate in isolation but is influenced by economic conditions in other countries. The United States is the largest exporter and importer in the world. If other counties prosper, they buy more American products, thus adding to American employment and profits. If other countries are stagnant or depressed economically, they buy less from the United States, thus hurting American employment and profits.

The individual manufacturer can do little that will influence such general economic conditions abroad; government must step in. It may, for example, stimulate exports by helping to finance them through loans; or it may insure American investors in underdeveloped countries against losses resulting from war or from seizure of American-owned property there, if the government feels that American investments in those countries are in the national interest. The economic facts in underdeveloped countries cannot be changed by the individual American investor, and perhaps only by the American government can protect the investor against the effects of conditions abroad by taking on risks that the investor can't be expected to shoulder.

3. 2.4 Changing Attitude

The expansion of government intervention in economic affairs in the United States has always been accompanied by a change in the way Americans perceive government. In the previous section, we can observe a constant give-and-take between regulation and deregulation. The reason lies in different attitudes toward government intervention.

Generally speaking, these two kinds of attitudes in essence can always be traced back to the ideas of Hamilton and Jefferson. Jefferson thought that the United States of his time--made up largely of independent small farmers and artisans--came very close to the ideal democratic society. He distrusted big cities, industrialism, and finance, since he felt that these new forces represented bigness. And in Jefferson's mind, bigness and democracy did not go well together. He feared that bigness in cities, industry, and finance would lead to big government. In the inevitable struggle between these massive forces, Jefferson felt the individual would stand little chance of keeping his economic or political independence. He insisted, "the best government was the one that governed least". (*American Government* p7)

Hamilton had different ideas on every one of these points. He felt that the future of the nation lay in the growth of strong industrial and financial forces, and that government should play an active role in this development. In his *Report on Manufactures* (1791), Hamilton urged Congress to adopt protective tariffs for America's "infant industries" and to encourage the growth of industry, commerce, shipping, and finance through every possible means. Whereas Jefferson stressed the importance of the legislature as expressing the will of the people, Hamilton favored a strong executive. Hamilton also believed—contrary to Jefferson --that the people had little ability to govern themselves and that they should be governed by elite (small, select class) of the well-born, well-bred, and well-to-do. Hamilton was not disturbed by the prospect of industrial and financial growth leading to the concentration of economic power in the hands of an elite, since he was convinced that in the economy, as in government, the many should put their trust in the few.

The history of deregulation and regulation, in my opinion, is in fact a reflection of which kind of attitude overrides the other. However, generally speaking, in the 19th century, Americans generally were wary of government, especially, the national government. Government meant control, and control meant reduction in individual liberties. National government was a still greater threat because it was remote. (*American Government* P7) Whereas as the nation rapidly developed an industrial economy, both parties came to agreement that if big business was to be kept in proper bounds, big government had to be used as the chief tool. Finally, the Great Depression of 1929-1939, in which one out of four workers was unemployed during the worst years, firmly re-established the principle of governmental responsibility for the functioning of the economic machine on a tolerable level. Many Americans today continue to pay lip service to the early view of government which asks for the least government, however, as Lowi (1996) suggested, a new theory of democratic government has gradually come to dominate modern American perceptions. From the perspective of this new theory, if government could be made less of a threat and less remote by the development of elections, representative bodies, and other mechanisms of popular control and if government could be made to pay attention to its citizen's needs and wishes, then a more powerful government would be a government with a great capacity to serve the people. In other words, the public came to believe that government control of the people would be more acceptable if the people, in turn, controlled the government. As a result, government intervention keeps growing. (*American Government* P7)

3.2.5. Means to Influence the Economy

By observing the means government used to influence the economy, we may find that although government intervenes in the economy, it doesn't affect the country's basic economic system—free-market economy. The government's management of the economy is indirect and reactive; it involves signaling these entrepreneurs and managers about shifts in fiscal, monetary and regulation policy. The goal is to get them to take into account what the government is doing so that they will see that it is in their own best interest to adjust their behavior (*American Politics and Government* P539). The American economy is still based on the market.

4. CONCLUSION

By tracing the history of government intervention in economy and analyzing the reasons for its expansion, we may realize that the expansion of government intervention is the inevitable result of economic advancement and the inherent weakness of individualism. Furthermore, by scrutinizing the present American economic politics, we can easily come to the conclusion that the American economy remains a free-market economy although with some restrictions. It does not rely on centralized government planning. Instead, the government fosters free or regulated markets, offers incentives to invest in certain activities and then leaves actual decisions to companies in the private sector. Nevertheless, a considerable amount of planning is done by individual, entrepreneurs and corporate managers who make decisions about how to maximize the return on their capital and how to manage the risks of their enterprises. The government intervention actually is a complement to the free market system. It still extols individualism much more than anything else. Americans continue to believe that an economy generally operates best when decisions about what to produce and what prices to charge for goods are made through the give-and- take of millions of independent buyers and sellers, not by government or by powerful private interests.

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