



Short Article

Free Enterprise

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Takeaways

Puerto Rico's economy needs a boom in entrepreneurship to overcome the prolonged crisis it has been going through for more than a decade.

Entrepreneurs' activity requires the space for freedom, for individual initiative provided by the free enterprise system.

Various forms of government interference with free enterprise are practiced, such as price controls, economic regulation, and permit and licensing requirements.

Interference with free enterprise is often justified in the name of protecting some public interest, but such interference is often inefficient and unnecessary.

Today, practically everyone in Puerto Rico recognizes that the Island's economy needs to rely on entrepreneurship to overcome the deep crisis it has been going through for more than a decade. Entrepreneurship is the set of activities and skills that lead one or more people to create value, income, and wealth for themselves and for society through the production and sale of goods and services.

Entrepreneurship manifests itself in the person of the entrepreneur, who is characterized by not conforming to the routine economic life, but rather seeking new opportunities, taking pleasure in deploying their personal initiative, assuming risk in a responsible manner and promoting innovation. This creative dynamism produces economic benefits not only for the entrepreneur, but also for those who come to fill the jobs created by entrepreneurial activity and for consumers who acquire new products and services that add value to their daily lives.

Entrepreneurial activity—entrepreneurship—can only occur effectively in an environment of economic liberty; in fact, what we call “free enterprise” is precisely a mode of economic, political, and legal organization in which individuals can exercise their entrepreneurial initiative, unrestricted by government or other entities, other than the basic rules necessary to ensure the security, property, and rights of all citizens.

Free enterprise implies that each entrepreneur has the freedom to devise new products and production processes, and to launch them at the risk of their own personal or corporate assets, without having to ask permission from the government or submit to guidelines on the nature of their enterprise or business. Of course, this freedom is limited by respect for social and personal values such as public health, workplace safety, and respect for the rights of workers and consumers; but apart from these considerations, the entrepreneur must have ample freedom of action. In a country where this principle is not recognized as part of the political, economic, and legal system, free enterprise does not exist.

There are various ways in which the government can invade the domain of free enterprise, often with good intentions, but rarely with good results. The most radical forms include the absolute prohibition of investment in certain activities, such as when in Puerto Rico no private company was allowed to participate in the generation and sale of electric power, which was reserved for a state monopoly—the Authority of the Fluvial Sources—which later became the Puerto Rico Electric Power Authority.

Other more common and frequent forms of government encroachment on the domain of free enterprise include price controls and regulation of certain economic activities. Price control is contrary to free enterprise because it interferes with the entrepreneur's freedom to compete in the market for their product by setting a price that covers costs and allows a competitive profit. When the government intervenes to control product prices, it does so in the name of public interest and consumer protection; but this intervention is often counterproductive, since the public authority has less information and agility than the market and can rarely overcome the free play of supply and demand in the process of establishing an efficient and fair price.

A conflict that occurred in Puerto Rico in the 1970s illustrates the problem of price control for a free enterprise economy. At that time, the government wanted to control the price of rice, since it was a product of widespread consumption and a staple for Puerto Rican consumers. Rice importers and distributors protested because they could not recover their business costs and obtain adequate profitability. The conflict was intense and prolonged, attracted the attention of the media, and caused a group of businesspeople to organize an association in defense of free enterprise. There are other controversial examples of price controls on the Island, such as, for example, the practice of setting maximum interest rates for unsecured personal loans, which was discontinued in the late 1980s after an arduous campaign by the financial sector industries.

Permit and licensing requirements are also a form of interference with free enterprise. As with price controls, attempts are made to justify the requirement of permits and licenses on the grounds of public interest; but often unnecessary requirements are established that only serve to hinder healthy competition among providers of a product or service and end up creating niches of unfair advantage for privileged entities or individuals. For example, the Puerto Rico Public Service Commission kept the number of permits to operate cabs on the Island constant for many years, which prevented the expansion of the service and artificially inflated the value of existing permits. In today's world, the presence of Uber has increased competition in this market and has fostered a notable increase in demand for individualized transportation services.

Respect for free enterprise is indispensable for a healthy, competitive economy and is a key component of economic liberty. It is a citizen's duty to ensure that any attempt to interfere with free enterprise, whether by price controls, regulation or permit and license requirements, is truly justified by an overriding public interest and is limited to what is strictly necessary for that purpose.

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