THE AMERICAN ECONOMIC SYSTEM TODAY

8 September 1948

CONTENTS

Page

SPEAKER--Dr. Louis C. Hunter, Member of the Faculty, The Industrial College of the Armed Forces.....1

GENERAL DISCUSSION.....14

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THE AMERICAN ECONOMIC SYSTEM TODAY

8 September 1948

DR. HUNTER: Yesterday morning Dr. Allen traced the course of American economic development down to the end of the nineteenth century. This development, as he made very clear, was an extraordinary one. In a period of less than a hundred years we rose from the position of a minor colonial economy to that of the leading industrial nation in the world. There is nothing in the history of the rest of the world to compare with this record. It is difficult to describe what someone has called the triumph of American capitalism in the nineteenth century without resorting to the excessive use of superlatives.

It would be easy to describe this American system today primarily in terms of its great achievements, especially the record productive achievements of the recent war period. But I am not going to do this. I am not going to give you a Fourth of July address on the wonders of the American system of production. I am going to assume that you are reasonably familiar with this side of the picture, for it is this side of the picture which gets the biggest play in the newspaper and periodical press and in public discussions generally, that is, public discussions of our economic system. So my emphasis today is going to be rather on the problem and the difficulties with which this economic system of ours has been faced increasingly during the last generation. I will be less concerned with what has been referred to as the triumph of American capitalism than with what might very properly be called the crisis of American capitalism.

Dr. Allen in his lecture yesterday morning gave particular attention to the distinctive and unique characteristics of the American economy as it developed during the eighteenth and nineteenth centuries. And quite properly so, because our development was in many ways set apart from that of the Old World during that period. It was set apart to a large degree because of the distinctive character of the American environment--which provided the basis for our economic growth--the tremendous continental expanse of territory, territory which was almost unpopulated at the beginning of our history; the extraordinary, unequaled wealth and variety of natural resources; and then, of course, the geographical isolation which enabled us to avoid entanglement in European affairs down to the end of the nineteenth century.

Today I am going to place particular emphasis, not on the distinctive features of our economic system, but rather on those features which are common to our economic system and that of Europe. Whether you call this system capitalism or whether you call it the free enterprise system, as in this country we like to do, our economic system is fundamentally the same as that of Europe, or at any rate, as that of Europe down to the outbreak of the First World War. The American Economic System, it is

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well to remind ourselves, is at the bottom of the economic system common to the whole Western European world during the past three centuries. The problems we face today can hardly be understood except in relation to the problems which the capitalist system throughout the world has had to face in the past generation.

Now, the nineteenth century marked the triumph of capitalism as an economic system, not only in America, but in the world at large. The countries where the capitalist or free-enterprise system was most developed were the richest and most powerful in the world. In the fields of science and technology they were the most advanced countries. They had the highest standards of living. Throughout the nineteenth century, capitalism was on the march. This system of production, you may recall, had its origin in Western and Southern Europe during the Middle Ages. From the fifteenth century on, it spread its influence progressively although slowly to all other parts of the world. Under the direction and the leadership of an able, aggressive, ambitious middle class of business men, capitalism seemed unbeatable. The older feudal economies and other primitive agrarian economies gave way before it.

In the late nineteenth century this situation underwent a gradual change. The material progress resulting from capitalist production was unevenly distributed as between regions and nations and within nations as between different social and economic groups. Weaknesses in the functioning of the free enterprise system developed, especially in the older capitalist countries. Capitalism was faced with the recurrence of periodic depressions, which presented increasingly serious problems with the st shift from agriculture to industrialism. Unemployment, insecurity, and poverty not only persisted but in some places seemed to increase. They gave rise to widespread social unrest. Movements of criticism and protest developed. The labor movement became a characteristic feature of the economic life of industrial nations. Various radical movements developed which demanded that capitalism be replaced by a different system of production. The western world witnessed the rise and spread of socialism, syndicalism, and finally communism which may be described briefly as an extreme form of socialism.

These attacks on capitalism did not offer a very serious threat so long as alternative economic systems existed only on paper. But the revolution in Russia in 1917 and the years which followed changed all this. A new economic system mainly along socialist lines, a state planned and directed economy, was established. The Communist movement took on increas aggressiveness as a result of this initial success. The goal of world revolution was preached. Left-wing movements in countries throughout the world took encouragement from the success of the anticapitalist movement in Russia.

The history of the past generation, as you know, is in important respects the history of the mounting struggle between the old and the new

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economic systems. This struggle has been most violent in the European world, where it has been attended by the rise of fascism as well as communism, but it also has spread to this country, although here it has operated largely on the ideological level. In many countries capitalism has gradually been forced into retreat, or at least has been placed on the defensive. As I say, it is important that we see our own capitalist system, our free enterprise system, against the background of capitalist development in general. It doesn't necessarily follow, of course, that what happens to capitalism in Europe will happen to capitalism in this country. The distinctive features of our system may direct our development along different lines. We hope so. But certainly it would be foolish to ignore the common features and the common problems of the capitalist system in this country and in the Old World.

Keep in mind, too, that the spread of totalitarian economies and state socialism elsewhere has made it increasingly difficult to maintain our free enterprise system in its present form. The pressures of state-controlled international trade will make this increasingly difficult. An economist writing in a recent number of the Harvard "Review of Economics and Statistics" described our dilemma in a rather graphic phrase. The United States, he declared, "is a capitalistic island in an ever-widening collectivist sea, . . . trying to fortify itself against a destructive tidal wave." This is rather picturesque language coming from a staid economic journal, but in view of the developments in the postwar years, it does not greatly exaggerate the situation.

Now, before taking up some of the problems we face, let me review some of the more favorable features of American development, taking up where Dr. Allen left off in the last period.

Our economic growth after 1900 in many respects continued along the same lines as before. Judging by the periodical Census reports, there was no letup in our material progress. American industry and American business went on from one triumph to another. The gap between our economic achievements and those of the European industrial powers grew wider and wider. I will just mention a few of these developments.

There was a continuation of the industrialization of the economy. The mechanization of production advanced steadily. The techniques of mass production spread more and more widely through manufacturing industry. Technological advances resulted in many new materials, new sources of power, new methods of transportation, and an endless variety of new products.

Agriculture underwent a development which in its way was almost as extraordinary. While the proportion of the population engaged in farming declined steadily, the total agricultural product rose tremendously. Mechanization, of course, was introduced very widely, and agriculture became divided into highly specialized branches. There were great increases in the variety as well as in the output of agricultural goods.

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Another outstanding development in this period was the great expansion which took place in the so-called service trades. This includes our elaborate systems of wholesale and retail distribution, the whole amusement and entertainment field, and a wide variety of forms of personal service. For example, the number of workers engaged in distribution increased three times as rapidly between 1870 and 1930 as the workers engaged in production. By 1930 the workers in distribution actually outnumbered the workers in production. In other words, the salesman has become a kind of axis around which the American economy seems to turn.

A number of the most significant developments of this period were a product of new methods of transportation, above all of automotive transportation. It is difficult to measure the full impact of the automobile on the American economy. Unquestionably the extraordinary rise of the auto industry gave a powerful stimulus to the economy as a whole. And the automobile, passenger vehicle and truck, had very marked effects on the organization and conduct of business by providing a more flexible method of transportation.

All of these economic developments and many others which I do not have time to enumerate, were, of course, reflected in great increases in national wealth. Real per capita income rose from $300 in 1859 to around $450 at the close of the century, in 1899, and to a peak of $631 in 1926. These figures were for real income measured in 1926 dollars. The increase in national income and in national wealth was far greater in proportion, since the population increased rapidly during this time.

Not only did we experience what seems to be a very extraordinary growth along these many lines, but since 1900 we have participated in two major wars, involving expenditures of hundreds of billions of dollars. We took these wars almost in our stride. The productive achievements of the Second World War were evidence of the extraordinary potentialities and the great vitality of our economic system despite the difficulties we went through during the thirties.

Now, having catalogued briefly and incompletely American economic growth in its more favorable aspects, let us look at the other side of the picture. Let's consider briefly some of the difficulties and problems we have faced in the past generation. We can't cover the waterfront, so I have selected three problems for brief attention: the problem of big business, the problem of economic maturity, and the problem of government intervention in economic activities.

The problem of big business has resulted from the steady advance during the past century of business and industrial concentration. This growth of business concentration has been demonstrated by many studies and investigations made during the past 50 years by congressional inquiries such as T.N.E.C., by Federal agencies such as the Federal Trade Commission

and the Smaller War Plants Corporation, and by still other studies made by private organizations and scholars.

Take the classic study of Berle & Means, "The Modern Corporation and Private Property," made in the early thirties. This study showed among other things that the 200 largest nonfinancial corporations in the United States came to hold a steadily increasing percentage of the total corporate wealth. In 1909 it was 33 percent; in 1929, 48 percent; and by the early thirties it had risen to 55 percent. The estimated figure at that time for 1950 was 65 percent. A Twentieth Century Fund study published in 1937 showed that in a surprisingly large number of industries the four leading manufacturers turned out from 75 percent to 100 percent of a given product by value. In fact, one-third the total value of all manufactured goods was produced under these conditions. The latest investigation of industrial concentration was made by the Smaller War Plants Corporation last year. It showed that the Second World War accelerated this trend toward concentration. For example, among many other facts it showed that during the war one hundred corporations handled no less than two-thirds of all prime contracts. One hundred corporations, too, accounted for over half the private war facilities built under certificates of necessity, and operated three-fourths of the government-built plants.

Now, this steady trend toward business consolidation in the last 75 years has a double significance for us, social on the one hand and economic on the other. No trend of our economic development in the past 75 years has aroused more continuous and general public concern--and opposition--than this trend. The reasons for this are not difficult to discover. The trend in business ownership has been the direct opposite of that which has taken place in the political field. The advance in government during the last century, we Americans take pride in pointing out, has taken the form of increasing equality of participation in government by the people. First we had the spread of suffrage from the adult male subject to property, racial and even religious qualifications to all the adult white males; then we gave the vote to the Negro, in law if not in fact; and finally we extended the suffrage to women. Then we introduced the direct election of senators, direct primaries, the initiative and referendum, and so on.

But in the economic field during this same period, the trend was in important respects in just the opposite direction, toward inequality. In the public mind, concentration of economic power appeared just about as dangerous, possibly more so, than the concentration of political authority. The question is not whether public feeling was right or wrong. The public has persisted in the assumption that business concentration endangers the American way of life. The result has been an increasing body of federal and state regulation of business which unquestionably offers difficulties for the operation of the free enterprise system in its traditional form. I will come back later to a brief consideration of government intervention.

The direct economic consequences, however, of this business consolidation result chiefly from its effects upon competition. Traditionally, in fact as well as in theory, a basic feature of the free enterprise system, of course, has been its highly competitive character. Full and free competition in the open market resulted in highly flexible prices and in a free flow of the factors of production--capital, labor, enterprise--into the areas of greatest demand. Through competition and the price system, the supply and demand were kept in balance.

Now, there is no question that as a result of this steady trend toward business consolidation, the free enterprise system has lost something of its competitive character. In the opinion of some economists it has lost a great deal of its competitive character. Increasingly, prices tend to be determined as much by the decisions of administrative officials in large corporations as by the play of supply and demand in the open market.

As an illustration of this trend, see the following table. This is simply an example. It does not prove anything by itself, but it is very suggestive.

This table shows the decline in prices and production from 1929 to 1933, in other words, the worst part of the depression period. The left-hand column shows the percent drop in wholesale prices and the right-hand column the percent drop in production. As you run down the line, beginning with agricultural implements, motor vehicles, and cement, the drop in prices was relatively small and the drop in production was great. The farther you do down the list of industries, the greater the drop in prices, the smaller the drop in production. Generally speaking, the areas where prices fell most and production least were those industries where competition was most active and the number of competitors was greatest. On the other hand, in industries dominated by a small number of producers there was a certain choice between (1) maintaining production by stimulating demand through lowered prices, and (2) curtailing production in order to keep up prices. This second alternative was the more attractive to many. It was a feasible alternative only in industries where the number of producers was relatively small.

This is simply one example. There is an abundant literature on this subject and you can find hundreds of other examples which illustrate the decline in the amount of competition.

The trend toward rigidity or inflexibility of prices is by no means confined to industrial products. The spread of labor organization and collective bargaining is producing similar results with respect to prices for labor--wages. And governmental support of agricultural prices in recent years through the parity formula. of course, operates in the same way.

DECLINE IN PRICES AND PRODUCTION 1929-1933

	Percent drop in wholesale prices	Percent drop in production
Agricultural implements	15	80
Motor vehicles	16	80
Cement	18	65
Iron and Steel	20	83
Auto tires	33	70
Textile products	45	30
Food products	49	14
Leather	50	20
Petroleum	56	20
Agricultural products	63	6

The fact that there is an increasing proportion of the population on the public payroll and the fact that civil service salary schedules for military and civilian personnel are fixed by law is still another element of rigidity in the market, where supply and demand do not function in the way in which they used to.

Now, this decline in competition, whether in business, in the labor field, or in agriculture, gives rise to many serious problems. In the opinion of some economists who have studied the problem, for example, Edwin Nourse, Chairman of the President's Council of Economic Advisors, who wrote a book on the subject, this trend from price flexibility to price rigidity has gone so far as seriously to impair the functioning of the free-enterprise system. It has been suggested as a major cause of the increasingly violent fluctuations of the business cycle. It has been discussed, too, as probably an important factor in the slowing down of the rate of our economic growth.

This slowing down of the rate of economic growth--what I described earlier as the problem of economic maturity--is the next problem that I want to consider. It is a problem of much broader scope than what I have called the problem of big business. It is a problem that we were very slow to realize existed. In fact, it took the crash of 1929 and the

depression which followed to arouse even economists to a very active awareness of the problem. Much attention has been given to its study in recent years. How much of a trend it is, how long it will continue, and even whether it is a trend or not are matters to debate and dispute among those who have given attention to it.

Now, to put this problem in perspective, let me review again briefly the development of the situation.

During the nineteenth century, as I have indicated, we had a period of extraordinary economic growth in this country and throughout the capitalist world. That growth was exceptionally great in this country along all lines--growth of territory, growth of population, growth in wealth, in industry, agriculture, and so on. Each decennial census showed marked advances in virtually every phase of the economy. The population doubled on the average nearly every 25 years. Immigration increased very rapdily, reaching a peak of around a million annually in the early nineties. The exploitation of our rich natural resources--timber, minerals, and so forth--increased tremendously in the generation which followed the Civil War.

The nineteenth century was a boom century in this country and the American people became a little intoxicated with the speed of their growth. We came to look down with a certain measure of condescension, if not even a little contempt, at the older European nations and their slower growth. It really seemed as though a special Providence was looking out for the United States. Many indeed believed that we were in fact a chosen people. We talked a great deal of our manifest destiny. We believed that we were somehow exempt from the natural laws which in the economic thinking of the time were believed to govern the course of economic development.

Now, somewhere around the turn of the twentieth century a change begins to become evident in the rate of our own economic growth just as in that of the capitalist world, generally. In many respects our economic expansion seemed to continue, as I pointed out earlier, as fast or even at a faster rate than ever before. Our industrial achievements reached new highs each decade. Population, national income and national wealth continued to soar. But while in the absolute sense our greatest progress was made in the first quarter of this century, actually our rate of growth was beginning to slow down. To the economist, growth and expansion are very important factors in the economic world, but even more important is the rate of growth, because the rate of growth suggests the trend, the direction in which we are going, and this in turn suggests changes in the character and functioning of the economy.

This slowing down of the rate of growth can be illustrated in many fields. Take population--as I suggested, the population doubled about every twenty-five years down to about 1870, or an increase of about 33 percent each decade. Then the increase declined to 16 percent in the boom

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decade of 1920-1930, and then to 7 percent in the depression decade of 1930-1940. If the present trend continues, our population, it is estimated, will level off and even begin to decline somewhere around the year 1985 or 1990. If you stop to consider the possible economic implications of this change, you will see that they are likely to be very great.

The slowing down of the rate of industrial growth, particularly in the older and heavy industries, is another thing that we can show on charts. I have two charts here. (Charts were not reproduced.) One covers manufacturing. The other covers the iron and steel industry. They both show something of the same picture--a steady upward climb during the nineteenth century and then this tendency toward a leveling off. The national income shows a similar decline in its rate of increase. In the last quarter of the nineteenth century the average increase perdecade was 27 percent. From 1894 to 1918 the rate of increase per decade was only 20 percent; from 1914 to 1938, it was down to 9 percent. During the depression decade, of course, it fell off still further. There was an absolute decline of around 2 percent for the years 1929-1938. Another aspect of this general change is the trend toward declining yields and increasing scarcities in a number of our basic natural resources. Down to the end of the nineteenth century most of these resources seemed inexhaustible. Since then, the problem of depletion and diminishing returns has appeared in a number of fields--especially in lumber, oil, iron ore, coal and the soil. There are, of course, exceptions to the general trend in our economic growth. You will find new industries arising which show curves of growth which remind one of the curves of growth for our industries generally during the nineteenth century.

It is important to note that there is no general agreement among economists on the significance for our economic system of what appears to be on the face of the present evidence a general tapering off in the rate of growth. And it is of course possible that the present trend may be reversed. There are extremist views, of course. On the one hand, there are persons who brush off figures of this sort as of no practical importance. They feel that under the free-enterprise system we have enough resourcefulness, initiative and drive to cope with any problem and difficulties which may arise. At the other extreme are those who are convinced that the capitalist system is on the skids. The leveling off of the curves of economic growth is to this group convincing proof that what they believe is taking place is actually taking place. Most economists, however, dealing with these problems refuse to jump to any conclusions such as these. Either extreme view may be correct, but neither can be demonstrated as probable on the basis of the available data. One fact, however, appears to be true. The basic conditions under which the capitalist system has been operating during the past two or three centuries have been undergoing important changes.

Two of these basic conditions were particularly important for the growth and expansion of the capitalist system, and I would like to speak of them very briefly. The first is the discovery, settlement and development by European peoples of the New world, including the Americas, Australasia, and South Africa. The second is the industrialization of what were,

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prior to the nineteenth century, the predominately agricultural economies of the Western World.

Unquestionably, these two developments gave a great stimulus to the capitalist system. For example, the settlement and development of the new World required tremendous amounts of capital. It provided a wide range and variety of economic opportunities. It opened up great wealth in natural resources for exploitation. And it supplied business with large and expanding markets. Industrialization in turn provided even greater opportunities for business enterprise.

In the United States these two developments fell chiefly within the century between two great wars: The Napoleonic Wars and World War I. Consider the heavy manpower and capital requirements of occupying and settling the continent, of building millions of farms in the West, of supplying the basic equipment of roads, canals, and other transport facilities to say nothing of towns and cities to service this agricultural economy. Industrialization in turn brought the building up from scratch of both our basic and our secondary industries, with their tremendous plant and equipment requirements.

Now, what happens when you approach what appears to be the end of these basic processes of settling the New World and industrializing the economy? How are you going to maintain a rate of growth which in the past seems to have depended so largely upon these two major developments? Can new Industries be created fast enough to take up the slack? Consider, for example, what the automobile industry did for the years between the First World War and the crash of 1929. Many have been looking hopefully for a solution of the problem of growth from this direction; they scan the horizon for other new industries which will give a comparable stimulus to the economy. Can we possibly expand our home markets for consumers' goods fast enough to accomplish the same purpose? Can we solve the problem by stepping up our exports both of capital goods and finished goods to less industrialized areas? And if all of these measures, individually or collectively, won't do the job, will the Government have to step in with greatly increased expenditures for public works?

There are no easy answers to these questions. We can't be sure of what the future is going to hold for our economy. We can only hope--and study the problem carefully. It may be that the falling off in the rate of economic growth is not a serious problem. Maybe things will straighten out in the course of time and we will look back upon this falling off in recent years as resulting from a kind of moral depression which resulted from the economic depression of the thirties, or as a period of economic change and readjustment. But we cannot dismiss lightly these changes in the rate of economic growth. The problem is particularly critical for this reason: The capitalist or free-enterprise system is a dynamic one. Expansion, growth, seem essentia for its successful functioning. For several centuries the conditions have been favorable for this expansion. What the future holds is less clear.

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Now, it is important, as I said earlier, for us to see the problems of our own economic development against the background of capitalism in general. It doesn't follow, of course, as I said at the beginning, that what happens to free enterprise elsewhere will necessarily happen here. It is true that American capitalism has its own distinctive characteristics. Although it is derived from European capitalism, it is in no sense a carbon copy. But, the basic features of capitalism here and in Europe have been much the same. The major differences appear to be the result of the much more favorable conditions of the American environment.

The developments of recent years suggest that the advantages we have so long enjoyed over the Old World may be simply the product of conditions that were necessarily temporary, the conditions of a young nation in a new and extraordinary rich environment; and that the problems we are now facing are the problems of a mature nation and a mature economy. This interpretation may not be a valid one. With the development of further facts and the progress of events in the next few years we may come to see things differently. Yet in the absence of a better interpretation of what has been taking place in this country and in the European world in the last half century, it will be wise not to simply brush this interpretation lightly aside.

Whether we like it or not, the capitalist system is in retreat in many parts of the world. There are many who like to believe that it is in retreat chiefly if not solely because of the attacks upon it, attacks by subversive radicals, attacks supported by revolutionary ideologies. There are many, too, who are convinced that our free enterprise system is immune from the weaknesses of European capitalism. Doubtless it is very comforting to accept such views. But it will be safer to assume that behind and beneath radical movements and subversive ideologies are conditions within the capitalist system which call for remedies and improvements. It is sounder practice to give our principal attention to the causes rather than to the symptoms of economic and social unrest.

Now, this brings me to the third and last of the three trends to which I am giving particular attention this afternoon—the increasing role of the Government in our economic life. I can treat it only briefly, as my time has about run out.

During the past generation, especially during the past fifteen years, as you know, there has been an extraordinary expansion of governmental intervention in our economic life. In the opinion of the typical businessman it is this trend, and not the others that I have been dealing with, which is the principal threat to the free-enterprise system. Certainly we have heard far more of this threat than of all the other internal developments in our economy combined.

With all due respect to the prevailing attitude in the business world, I think we have to recognize that government intervention is a result no less than a cause of the difficulties of free enterprise. In fact, you will find that many if not most of the forms of government intervention complained of are associated with the increasing departures from free enterprise as it existed back in the middle of the nineteenth century, when business practice corresponded rather closely to the theory of free enterprise. After all, the increased role of government in our economic life comes in response to the demands of the people that the Government do something about certain economic conditions which they don't like, which perhaps they don't understand, but with which they are dissatisfied.

Now, the particular forms which this increasing government intervention has taken may be unfortunate and they may be mistaken; their advocates may be misguided and even starry-eyed; but, nonetheless, the problems which have given rise to this intervention are very real problems. One thing seems to be fairly sure--that the old silent policeman conception of the role of the Government, the notion that the Government functions simply as a policeman to protect property and maintain order and otherwise keeps his hands off, is gone and probably gone forever.

As Dr. Allen pointed out in his lecture, even back throughout the nineteenth century there was a fair measure of governmental intervention in economic affairs. But such intervention in the nineteen century was for the most part of one kind. It consisted chiefly of handing out benefits to business enterprises, benefits in the way of protective tariffs, shipping subsidies, free land grants on a large scale, or the disposal of rich mineral and timber resources in the public domain for virtually nothing. But while there was much government intervention in economic affairs in the nineteenth century, it is principally since 1900 that its tremendous expansic has taken place. It is not possible at this time to review developments of the past generation in any detail. It is perhaps unnecessary to do so, for these things have taken place for the most part during your lifetime and mine

If we consider only the sphere of the Federal Government, it is obvious that a tremendous change has occurred. In place of the silent policeman-Sant Claus role characteristic of the nineteenth century, we have a Federal Govern ment which intervenes actively in every major branch of economic activity. We have Federal regulation of many economic and business practices by a wide variety of laws designed to maintain competition, establish fair trade practices, protect workers, consumers and investors, regulate labor-management relations, control practices with respect to money, banking and the exchanges regulate rates, wages and prices--and so on. Simply to list the numerous Federal regulatory agencies would be a tedious business. The Federal Government, of course, continues to give aid and assistance in various ways to various branches of private enterprise through such devices as the protective tar iff, subsidies and support of commodity prices. To some extent, too, the Federa

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Government has moved into the field of production, chiefly in the field of hydroelectric power, and recently, atomic energy, but to some extent in the ownership and operation of manufacturing facilities and in the operation of water and rail transport lines.

More significant for its impact upon the free-enterprise system, probably, is the fact that in recent years the Federal Government has undertaken on a tremendous scale two of the most important functions of the businessman--the supply of credit and the bearing of risk. We now have a whole network of government agencies engaged in the supply of credit to businessmen, to farmers and to consumers, including the various divisions of the Farm Credit Administration and the Federal Loan Agency, especially the Reconstruction Finance Corporation. A second group of agencies are those which are engaged in one branch or another of the insurance business--and in a large way--the Federal Security Agency, covering the field of social security, that is, old age and unemployment insurance; the Federal Deposit Insurance Company; the Federal Crop Insurance Corporation; and the Federal Savings and Loan Insurance Corporation.

Finally the Federal Government is moving gradually, but almost irresistibly, toward an acceptance of responsibility for keeping the economic system as a whole operating on a moderately high level. This seems to be clearly the case despite our great reluctance to admit the fact. The experience of the thirties, the depression years, and the experience of the war period seems to indicate pretty clearly that under conditions of a crisis, whether of war or of peace, pressure both of events and of public opinion virtually compels the Federal Government to assume responsibility for a large measure of central control and direction of economic activities. The tremendous size of our national debt today--some 250 billions--and the tremendous size of the federal budget--about 35 billions--are such that they can be handled only if the national economy continues to operate at a high level. It is difficult to see how the Federal Government, regardless of the party in power, can return to the traditional "hands off" attitude. If anything, more rather than less federal intervention in economic life seems probable.

I think that from this review of some of the trends in our economy, the relation of these trends to economic mobilization is not difficult to see. It isn't enough to understand simply the different segments into which we have divided the study of economic mobilization--procurement, requirements, production, and the rest. It is important to see the whole economy, for it is on the organization and functioning of the economy as a whole that the scale and intensity of any war effort depend.

We haven't as yet been put to the test of total war, neither we as a people nor our economic system. Today, as we are often told, our Armed Forces are but the cutting edge of the war machine. The machine itself comprises the whole economic system. The strength of the economic system is military power.

Its weakness, by the same token, is military weakness. Obviously, it is as important to know and to understand the limitations of the economy which back up the forces in the field as it is to be fully aware of the weaknesses of these military forces. This knowledge is necessary for the purposes both of strategic planning and for the logistic planning and support of strategic plans. Our view of the economic system has to be realistic. We can't deal simply in terms of past achievements, however great and however reassuring. We must see our system as it is, and not simply as we would like it to be.

Some of you perhaps will say that we in the Armed Forces don't need to concern ourselves with long-range trends or tendencies in the economy. Certainly we were very little concerned about such matters in the prewar years. But as the times and conditions have changed more and more we are finding it necessary to think in these long-range terms and trends, long-ran terms with respect to both foreign and military policy as well as with respe to government policies in economic affairs. We can't afford to take the sho range view of things on the assumption that if we take care of immediate pro lems and short-range trends, the long-range trends will take care of themsel We are in the game of world politics for good, and we are playing for keeps.

DR. REICHLEY: Dr. Hunter has given us a good insight into the ecomomic situation today. I also think that he has probably developed some questions in your minds. Are there any questions?

QUESTION: Dr. Hunter, isn't industry contributing to its own downfall as a result of this tendency toward expanding and thereby encouraging government control by its growth of monopoly? Aren't they inviting government control when they tend to monopolize any particular industry into a large combine?

DR. HUNTER: I think the record speaks pretty clearly for itself in tha direction. Yes. There has been not exactly a steady consolidation—there h been recurring waves of consolidation in business and industry. Each one of these periods of business consolidation has brought its reaction in the dema of the public for the establishment of more stringent controls. There are many who would like to turn the clock back to the day before the rise of the huge corporation. They feel our system of regulatory control so far as anti-trust legislation is concerned is outmoded for the reason that we can't turn the clock back. In fact, we are not altogether sure what to do about the problem; but we do a lot of talking about it. We get pretty worked up emotionally.

COLONEL CLABAUGH: What are some of those monopolies?

DR. HUNTER: Well, of course, I can't give many of them to you offhand. A few stand out prominently. I think Alcoa is one outstanding example.

COLONEL CLABAUGH: Don't you think Reynolds gives them some competition?

DR. HUNTER: You have to distinguish between these monopolies. The problem is not simply one of absolutely complete monopoly by one concern on the one hand or having literally thousands of competitors in the manner characteristic of this economy during the middle of the nineteenth century. The question is how much competition you have and what kind of competition you have. For example, take the automobile industry. You have competition of a kind between the automobile manufacturers, but it is quite a different kind of competition from that envisaged by the classical economists who formulated the fundamental principles of what we call the free-enterprise system.

You don't have a free market if any one producer is in a position by withdrawing from production or increasing production to appreciably affect the price of the product. If Ford Motor Company by stepping up production of an automobile or reducing its production can affect very materially the price, just as this chart shows over there, you don't have prices fixed by the play of supply and demand in the open market. The officials of this, that or the other company making automobiles, washing machines, or refrigerators will ask themselves: "At what level shall we fix the price of our product? Shall we aim at reaching chiefly the well-to-do business and professional people who live in two-bathroom-house neighborhoods or shall we lower our sights in order to include the low-salaried white-collar workers and so get larger production?"

At the end of the war there was much talk of Ford producing a low-priced, light-weight economy model, you may recall; but that idea was abandoned. The decisions on all such questions are customarily made by the officials of the companies, not by the automatic play of supply and demand in the open market. This was not possible under the free-enterprise system at the height of its conformity to the principles of this economy in the nineteenth century.

COLONEL CLABAUGH: I think your illustration of the Ford Motor Company is interesting because it was Ford who reduced the price of the automobile by his large-scale production. But, coming back to the aluminum people, I think you will find if you take either Alcoa or Reynolds, there is some competition with them, and in addition to that, aluminum has had to compete with other materials.

DR. HUNTER: Let me give you another example. You have me in a hot spot. I haven't been working in this field and can't cite the material offhand as those who are specialists in this field can. But let us take the example of so-called product differentiation in relation to competition. What does every manufacturer try to do to his product? He tries through advertising to make the public believe that his product is unlike any other product in the world. By this means, he seeks to avoid direct competition with the manufacturers of similar products--whether cigarettes, or coffee, or canned beans. I am not

saying this on my own authority. There is a big literature in this field, describing the many, varied, and widespread practices by which it is hoped to avoid or to reduce competition.

COLONEL CLAYBAUGH: I think there is a difference between avoiding competition and meeting and overcoming it. The rivalry in that respect is one of the merits of the free-enterprise system.

QUESTION: I would appreciate it if you would expand your remarks as to the effect of the huge national debt on the present and future economy of this country.

DR. HUNTER: I would hesitate to get deeply involved in this field. We have a national debt today of about 250 billions. Naturally, to servic this debt imposes a very heavy load on the budget of this country. We have in addition to this the heavy military budget, the administration of Veterans' affairs, pensions, and related expenses growing out of war. We have also the expenses of old-line civilian agencies. The total federal budget is so great that in order to meet it and to carry our huge national debt so as to avoid its repudiation or scaling down in one form or another we have to maintain our economy on a level that will provide enough revenu through taxation to meet all these demands. This is the situation I have in mind when I raise the question: Can the Federal Government allow the national income to drop back from the present level of over 200 billions to the prewar level of 60 or 70 billions?

QUESTION: Would you care to comment on the impact on the economic system of the confiscatorily high personal income taxes?

DR. HUNTER: This is a very difficult and very controversial problem. You are faced with the problem of providing for new capital investments to make it possible for the economy to keep on expanding, to maintain the dynamic character which, as I suggested, seems essential for the successfu functioning of the capitalistic system. You have to get new capital inves and in order to do that, you have to make investments attractive to person who have funds to invest, and you have to make it possible for these perso to acquire the money with which to make the investments. A the same time you've got to obtain sufficient revenue to meet a tremendous peacetime budget.

I don't know at what point you are going to draw the line as to the amount of taxation that is not confisatory, at the same time within the limits of the necessities of the situation, and that which is confiscatory It is one of the most delicate and critical problems that the Government has to face. When an organization like the Committee for Economic Develop ment puts its research staff on the problem of our federal tax structure, with these difficult questions in mind, and a variety of other private and government organizations are tackling the same problem from other angles, I don't believe that I can make any contribution to its solution.

RESTRICTED

QUESTION: You spoke about the government's intervention with capital. I have heard much about capital's intervention with government. Would you care to comment on that?

DR. HUNTER: I can't say any more than that we are all familiar with the fact that when we want to get anything done these days, we try to influence the Government. We want to influence it in favor of our interest and against the other fellow's interest if it is opposed to ours. Since individually we cannot bring a great deal of pressure to bear on Congressmen and administration officials, we join an organization which does the job for us and others who have similar interests. The organization that the other fellow joins is, of course, a "pressure group." The organizations to which we belong, on the other hand, are high minded and disinterested and concerned simply with promoting the general well-being of the country.

If you go up on the Hill, you can see where they keep these long lists of these organizations--known as pressure groups--and their representatives, usually called lobbyists, and the amounts of money which they spend. We dislike pressure groups, especially when we disagree with their objectives. But they are an integral part of our political system today; not of the formal, legally established political system, but of the extra-legal, informal machinery of government.

Whether we have more lobbying and other pressure activities today than we had in earlier years is difficult to say. It is probable that we have much less of the cruder and more direct methods of influencing government officials. There were some unfortunate examples in the late war, it is true; but for the most part individuals who wish to get certain things done or to prevent certain actions don't go about with stacks of greenbacks in little black bags. The thing is handled much more subtly than that, and it is usually handled quite legally. The methods by which business and other interests seek to influence government action in their favor do present certain dangers in a democratic system, but these methods are part of democratic government and cannot readily be eliminated.

MR. SWAREN: The last question bore somewhat on what I have in mind. I wonder if you would care to comment on the psychological aspect of this? I have in mind particularly things such as the railroads, where a terrific uproar was made by the people because of the monopolistic situation, although they were operated for less money here than anywhere else in the world. Then fifty years later we had the movement to tax the railroads. Then we had the utility companies that seemed to be breaking out of the picture. Now we have national resources like coal doing it. Even the labor unions are beginning to show monopolistic tendencies. Much of that seems to be psychological. I wonder if you would care to comment on that.

DR. HUNTER: I am not quite sure what you mean by "psychological." Do you mean that monopoly is an idea rather than a fact?

MR. SWAREN: The thought that because it is a monopoly it is wrong. Monopolies almost always do a better job.

DR. HUNTER: Of course whether a monopoly does a better job or not is a question of fact which has to be decided on the basis of the available evidence in each case. You will find in a recent number of the American Economic Review an interesting article which takes up the question of the efficiency of so-called monopoly. There has been much discussion of this issue--at which point increase in the scale of production, in the size of operations, large-scale operations cease to be more profitable than smaller-scale or non-monopolistic production.

But, referring back to the example that you cite, the railroads, of course, were the first really large-scale corporate development in this country. They were developed by a group of businessmen who were extremely shrewd, aggressive, and ambitious, without too many scruples of the sort that were generally held by the older type of businessmen. There was a job to be done in covering the continent with a railway network. The opportunities were great and they made the most of them. They did a remarkable job, but they were thinking in only too many instances simply in terms of their own interests. They established the rates and they provided the service in terms of what they thought was to their own advantage. Too often their attitude was one of "The public be dammed." But as the public became increa ingly dependent on rail transportation, it became more and more alarmed at some of the practices of the railroads. So we have a long movement to bring the railroads under control. The Interstate Commerce Act was passed in 1887 but some twenty or thirty years went by after the passage of that act before Interstate Commerce Commission was given the power to do the job. The perio of aggressive expansion in the promotion, construction, and operation of railroads came to an end; an effective system of public control was establis and a new type of leadership came to the front in railroad management.

But while the railroad situation is becoming stabilized, the problem of control arises in other areas--in steel, in meat packing, in electric power, and so on. We are continually witnessing new business, new industrial, new technological developments, which give rise to new problems of public policy and control. These reflect the dynamic qualities of our economic system--growth brings problems as well as benefits. The American public has always been antagonistic to big business as such--rightly or wrongly it rega what it calls monopoly as a threat to the American way of life.

RESTRICTED

MR. SWAREN: Do you think that trend will continue?

DR. HUNTER: I think it is very difficult to anticipate what the course of public policy will be in the future. There is little evidence, however, to suggest that the American distrust of business concentration is subsiding. The policies of the Antitrust Division of the Department of Justice in January 1949 may, of course, be somewhat different from what they have been in the past thirteen or fourteen years; but it is not probable that this division or its activities will be eliminated.

DR. REICHLEY: Thank you very much, Dr. Hunter.

(30 September 1948--450)S.
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