# RELATIONS BETWEEN GOVERNMENT AND PRIVATE BUSINESS IN THE AMERICAN ECONOMY

15 September 1950

CONTENTS



Publication No. L51-17

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

RELATIONS BETWEEN GOVERNMENT AND PRIVATE BUSINESS
IN THE AMERICAN ECONOMY

15 September 1950

DR. HUNTER: There is no more controversial area of public policy today, I think it is safe to say, than that of the relationship of government to business enterprise, of government to economic activity generally. The very acuteness of the controversy over this issue reflects the importance of the relationship between the two. No issue has aroused more discussion and provoked more bitterness, I suppose, during the past two decades.

At one extreme in this controversy are those who advocate that private enterprise should have virtually complete and unrestrained freedom of action in the economic field. Perhaps there aren't many people today who would go this far, but they make up a very earnest, determined, and vocal group. This group would reduce the role of government to that of "silent policeman," limited to maintaining law and order and protecting property--for the rest, hands off. Let's get rid of all these hampering, hamstringing rules and regulations--free business and give it a chance.

At the other extreme are those who would eliminate private property and private enterprise from the economic system. This group holds that the Government itself should control and direct all productive activities, that private property should be eliminated, and that in all important matters the management of the economy would be directly by the agencies of the Government. Such is the position of communism: "The State and the economy are identical." The position of socialism is more moderate. Socialists would have the Government take over only the more basic industries and economic institutions.

While the problems of the relationship of government to economic activities is particularly acute today, these problems are far from new. The problem of this relationship has been with us from the very beginning of our history. It was more or less an active issue during much of the colonial period. The American Revolution was largely the result of a failure to resolve this issue as between the British Government and colonial economic interests. The Civil War was in part, although only in part, brought on by disagreement between the North and the South over the extent to which the Federal Government should intervene in economic life.

To come down to our own time, no issue has been more continuously or more acutely before the American public during the past 50 years than this one. In this time there has been hardly a national political campaign in which this has not been one of the major areas of controversy. We are all familiar enough with this phase of the New Deal period. It is an issue, too, which has been given new weight and new meaning by the postwar conflict between ourselves and the Communist countries.

Now how can so touchy an issue as the relations between government and business enterprise be handled so as to keep down our blood pressures and improve our understanding of the problem? My method will be that of an historical analysis of the problem as we've faced it in this country at different times in the past. This is not to suggest that we will find the solutions to present-day problems in the past; far from it. However, the roots, the origins of present-day conditions, problems, and institutions go deep into the past; one can hardly understand these conditions and problems without some attention to their origins.

One thing that has come down from the past--and often with surprisingly little change--is in the field of ideas. To understand the origin of our ideas about the nature of the problem of government-business relationships will be very helpful in understanding this whole area.

So let's start with some ideas that are rather widely held today, especially among businessmen, as to what constitutes the proper, the most desirable relationship between the Government and economic activities. This idea can be summed up in the phrase: "Less Government in business; more business in Government," which, if I recall correctly, became popular first in the Coolidge administration. In other words, reduce the role of government to a minimum.

Now according to this viewpoint, the greater part, if not all, of the extensions of government intervention in the economy during the past two decades have been undesirable and unfortunate. They have hampered and restricted the functioning of our economic system. Among economists, the group of ideas, of theories which incorporate these views is known as laissez-faire, which, loosely translated, means "Let alone."

Historically, the body of economic doctrine known as "laissez-faire" is associated with the rise of the middle class, the business and commercial class, to a position of prominence and influence in the Western World during the seventeenth and eighteenth centuries. In contrast with the ruling class of the preceding era, the feudal aristocracy, whose power and position was based on land, the growing influence of the middle class was based on monied wealth, gained chiefly in trade.

Increasingly, the middle class found themselves hampered by the elaborate regulations of trade and manufacturing developed in most nations in western Europe during the sixteenth and seventeenth centuries, regulations which reflected the then dominant politico-economic theory, or philosophy, of mercantilism.

Under mercantilist doctrines, one of the main functions of the Government was to guide and direct the economic life of the Nation. The purpose of such guidance and direction was to promote national interest, increase the Nation's wealth, add to the Nation's strength and power in its relations with other nations. Kings and statesmen of that age may never have thought of economic mobilization, but they knew the close dependence of military strength upon the Nation's wealth and resources and upon the financial resources of the Government.

The middle class became increasingly opposed to mercantilism for the simple reason that the many restrictions represented by these laws hampered their operations. Before long their spokesmen attacked the theory on which the regulatory practices of mercantilism were based. Gradually the tide of opinion began to turn against the traditional view that close regulation of economic activities by the Government was desirable. By the end of the eighteenth century this tide was moving pretty fast.

Two events occurring about the same time toward the end of the eighteenth century symbolized the growing revolt against government interference with economic life, especially with business. One was the publication in 1774 of Adam Smith's "Wealth of Nations," referred to by Dr. Piquet in his lecture earlier in the week. The other was the outbreak in 1776 of the American Revolution--better called the War for Independence.

Let's take the second event first. The War for Independence was directed primarily at English regulation of American economic activities--regulation of manufacturing, of agriculture, of monetary matters, and, above all, of trade and commerce. Actually, the colonies hadn't done too badly under the mercantile policies of the Mother Country but the colonists, generally speaking, and above all the colonial merchant class believed they could do even better if allowed to run their own affairs. The War for Independence was the result. With independence, the colonists obtained freedom from English interference with their economic life.

The American Declaration of Independence applied to the colonies alone, although many other subject peoples, were, in time, to obtain inspiration from it. Adam Smith in his "Wealth of Nations" issued a declaration of independence for the middle class, in every nation, for businessmen, wherever they might be, hampered and restricted by the prevailing government regulations of business enterprise. In this small volume, Smith outlined a charter of economic individualism. He provided in persuasively eloquent form the foundation of the classical economics which became the Bible of the business class. The "Wealth of Nations" is a great historic document. It was to the nineteenth century thinking in politico-economic matters what Karl Marx's "Das Kapital" is to the twentieth century. It provided the middle class, the rising business class in the Western World, with a basic philosophy, a philosophy which supported and justified their interests as businessmen. The philosophy of economic individualism, of laissez-faire, which Smith preached, is, with some modifications, still the basic philosophy of the businessman. It still provides him with his principal supply of ammunition against government intervention in economic life.

It isn't necessary to review the argument, the theory, of Adam Smith and his followers in any detail. All of you have, no doubt, at some time had some acquaintance with it. Smith argued with great forcefulness that the wealth of nations--and the power based on wealth--was not best advanced by policies adopted by governments in accord with the older mercantilist doctrines. No government, however well meaning, however far-sighted and efficient, could direct and regulate the economic life of its nation with good results. The wealth of nations was best promoted by allowing each individual to pursue his own self-interest in his own way--subject only to two things: (a) minimum rules for the protection of property, enforcement of contracts and the like, made and enforced by the government and (b) competition--free and full competition--in the open market serving as the guide and regulator of the economic system. Completion, operating through supply and demand in the open market, would act as the guide and regulator of the economic system. It was the "Unseen Hand" referred to by Dr. Piquet in his lecture.

The doctrines of Adam Smith and his followers were based on the assumption that economic life, no less than the physical world, was subject to and governed by natural laws. These laws could no more be changed by man than the physical laws governing the behavior of matter. Any attempt by man, operating through government, to regulate or otherwise interfere with economic life could only have harmful results by upsetting the free and harmonious play of these natural economic forces, operating through self-interest, regulated by competition and by the laws of supply and demand. Any interference by the government, except under very specialized circumstances and limiting conditions, must be avoided. However well meaning, it could only do more harm than good. There must be neither assitance on one hand nor restrictions on the other hand. Protection through tariffs must be abandoned in favor of free trade. Industry must not be aided with subsidies in any form. Businessmen in turn must not interfere with the operation of natural economic laws. Above all, there must be no restraints upon competition, whether by government or by business.

Now these doctrines of Adam Smith and his followers came to have wide acceptance, especially among the business class, a class, which, mind you, was growing rapidly in number, in wealth, and in influence. But it was not confined to them by any means. Many were convinced by the logic and the simplicity of the new economics of laissez-faire. Many of the older regulations of trade, business, and industry were obviously obsolete and harmful. The doctrines of mercantilism gradually gave way before the doctrines and practices of free trade--a movement culminating in England with the repeal of the "corn laws" in the 1840's--laws long in effect for the protection of English agriculture from foreign competition. England was the center of the free-trade movement but the influence of free-trade laissez-faire doctrines spread widely. The nineteenth century in a way can be described as the century of free trade.

I have gone into these origins of laissez-faire (which in time were elaborated in great detail by the so-called classical school of economists) for this reason:

Adam Smith and the other classical economists provided the ideological foundations of the American free-enterprise system. I think it is safe to say that there is no one in this room today who does not draw a substantial part of his economic thinking from Smith and the other classical economists.

But here is a surprising thing, the American Revolution--this rebellion against British mercantilism with its elaborate network of economic controls and restrictions--was not followed by an attack on intervention in economic life by the State and Federal Governments. In some respects, the 75 years between the Revolution and the Civil War was the golden age of individualism. Business was mostly small business; it was highly competitive. Never were opportunities greater for the individual to enter business on his own. The country and the economy were expanding rapidly; capital requirements of business and industry were relatively small; specialized technical and managerial skill was little needed.

However, instead of following the example of the English business class and demanding government hands off, the American businessmen--merchant, manufacturer, businessmen of all kinds--virtually all favored government intervention of one kind or another. So too did most farmers and the rising working class. Mind you, though, they were often far from agreement among themselves as to what kind of intervention. What was one man's meat was often another man's poison.

But, and this is the important thing, there was almost no opposition on principle to the idea and practice of government intervention down to the middle of the nineteenth century.

Let's take a quick look at the record, first, of the Federal Government: In response chiefly to the pressure of the business interests of the time, and in spite of its limited powers, the Federal Government violated the doctrines of laissez-faire:

1. By giving protection to American manufacturing through the tariff.--The period 1790-1860 was, generally speaking, a period of low protection but it offered some protection to home manufacturers. Northern farmers and southern planters were in the saddle and were opposed to paying higher prices to help the manufacturer. They successfully opposed the drive of American industry to obtain a high protective tariff.

2. By giving extensive aid to the development of transportation.--The Federal Government itself built the great "national road;" it gave large subsidies in land grants and stock subscriptions to canal companies and railroads; it made extensive river improvements.

3. By incorporating the United States bank in 1791 and again in 1816.--This was far the largest bank in the country and the Federal Government was a principal stockholder in it. In the 40 years of its operation, the bank exercised a powerful influence upon money and banking in this country.

4. By setting up marine hospital system and steamboat inspection service.

These are simply the more striking examples of Federal departures from the doctrines of laissez-faire.

The States were far more active in the field of economic legislation than the Federal Government which, after all, was restricted in its activities to functions enumerated in the Federal Constitution. The most impressive state intervention prior to the Civil War was in the construction of elaborate systems of transportation improvements, chiefly canals, but roads and railroads were also built. All the more important states went in for such improvements in a big way. There were state-wide canal systems, especially in New York, Pennsylvania, Ohio, and Illinois. Railroads were built and much was done to improve river navigation by slack-water systems and other means.

State Governments also gave extensive aids to private transportation projects through stock subscriptions, land grants, loans, and other aids.

Many states went into the banking business, too, setting up and operating state banking systems. There were some beginnings made in legislation regulating business enterprise; the regulation of railroads, for example, and also the regulation of the manufacturing industry in respect to child and woman workers and to hours of labor. Finally, there was legislation in most states granting business the important privilege of incorporation, legislation which made available the organizational base for the tremendous expansion of business enterprise after the Civil War.

In summary, prior to the Civil War, there was general acceptance, not only by the public as a whole, but by most businessmen, of the desirability of government intervention in economic life.

The generation which followed the Civil War has been characterized in various ways—as the Age of Big Business; the Age of the Robber Barons; the Gilded Age. Never before, or since, has business operated with such freedom from restraints and under such favorable conditions, political and economic. It was a period of extraordinary opportunities and extraordinary growth. These were the years when the business class, especially big business, replaced the farmer-planter class of the earlier period as the most influential and powerful group in the country. With the Democratic Party under the cloud of southern rebellion, the Republican Party pretty much ran the country during the 40 years following the Civil War, and the Republican Party reflected pretty closely the interests and the attitudes of the business class.

These developments were accompanied by changes in prevailing attitudes respecting the relationships between government and business enterprise. At last the doctrines of Adam Smith came to have wide acceptance in this country, especially among the rapidly growing and influential business class. However, businessmen were very selective in their acceptance and interpretation of the doctrines of laissez-faire.

With the financial resources made available through the corporation and the great private banking institutions of the country, business no longer needed nor wanted government activity in the transportation and utility fields as they did a half century earlier. Moreover, as their operations became larger and more varied, businessmen became increasingly concerned over the prospect of another form of government intervention—government regulation of business practices. All the arguments of the classical economists were employed to emphasize the unfortunate results of government intervention. In several important respects, however, businessmen violated the basic principles of laissez-faire—and with evidently little concern with logical consistency.

1. They sought and obtained a protective tariff which was pushed to higher and higher levels. They would have none of this free trade nonsense.

2. They sought and obtained government assistance on a lavish scale--in two principal forms: (a) land grants and financial assistance for railroad construction--chiefly west of the Mississippi and (b) public land disposal policies which made rich timber and ore properties of the West available to private enterprise at a nominal figure. A great wealth of natural resources present in public domain was virtually given away. And there was much evasion and downright violation of laws designed to safeguard our natural resources.

3. Moreover, business showed an increasing readiness to violate a basic tenet of the classical economists--the maintenance of competition. In the last quarter of the nineteenth century, there was scarcely a major field of business enterprise in which there was not widespread evasion of competition. Pooling agreements, trusts, and other forms of business combination were characteristic business practices of the last quarter of the nineteenth century, and monopoly in varying degrees came to be widely practiced.

By and large, business enterprise did very well for itself in this period. It sought and obtained government intervention in its behalf in various ways; at the same time it successfully staved off the growing efforts to regulate and restrain business practices. In other words it accepted and used such of the classical economic doctrines as suited its purposes--and largely ignored or repudiated the rest.

So far as the general public was concerned, however, the situation was very different and far from satisfactory. An outstanding political development of the period 1865-1914 was the steady rise of public concern, which at times reached alarm, over the growth and practices of big business. To some extent, this public concern was based on the fear of bigness itself, on a fear of the possible results of the concentration of economic power in hands of the growing number of great business corporations--industrial, financial, and utilities. At the very period when the trend toward political equality was reaching its highest level through the extension of the ballot to women, to the emancipated negroes (in theory if not in fact), the trend in the economic sphere seemed to be headed in the reverse direction, toward greater and greater inequality. And economic power meant power in such vital matters as the making of a living, jobs, and income.

The classic example of uncontrolled corporate management is provided by the railroads in the post-Civil War decades. The railroads were the first really big business in the United States, with capital investment measured, not in tens or, at most, hundreds of thousands of dollars, as was characteristic of most business enterprises in the middle years of the nineteenth century, but in millions of dollars. Unlike the great canal systems, they were, with minor exceptions, built and run by private enterprise, but by private enterprise receiving extensive public aid in the form of land grants, government loans, tax and tariff exemptions, and in stock subscriptions made, not only by individuals, but by town, city, and county governments. The major abuses in railroad management can be grouped under three headings, (a) reckless and unscrupulous promotional and financial practices, (b) high and, at times, extortionate rates, and (c) rate discrimination as between individual firms, communities and interests. Small groups of insiders often ran great railroads without regard either to stock and bond holders or to the public. Great quantities of watered stock were issued--stock with no tangible and often no intangible assets behind it. The result was to jeopardize the ability of railroads to meet their obligations. This was combined with the manipulation of finances and rigging of the stock market by insiders together with other and more ingenious devices for siphoning off funds for the benefit of the insiders. Such manipulation combined with reckless mismanagement culminated in periodic waves of wholesale bankruptcy in the 1870's and 1890's, wiping out or scaling down drastically the equity of stockholders and bondholders.

Mismanagement, financial manipulation, and related practices resulted in high and burdensome rates and in discrimination--that is, unequal treatment among shippers--in rates. An inflated capital structure plus high operating costs led naturally to high rates and to the practice of charging all that the traffic would bear. Railroads were our first great business monopoly, and, as such, interfered with the functioning of an economic system regulated, in theory, by competition. They were, to a limited degree, competitive in service between major regions and some of the larger cities, but most shippers and consignees in most places had only one route, one railroad to serve them. The power which railroads had over transport rates was almost literally power to determine success or failure of individuals and firms. In a highly competitive market, in which the margin between success and failure was relatively narrow, discrimination in rates by railroads could and did have serious consequences.

The problems of economic control first raised in a large way by the railroads appeared in one form or another, in one degree or another, in other fields of business enterprise--in manufacturing, in mining, in banking, in street railways, in communications, and, in the early twentieth century, in the field of electric power. Only agriculture, retail distribution, and a few other areas were exempt from the general trend toward large-scale operations in American business and industry. In many instances, growth in size was followed by combinations to minimize, if not eliminate, what many regarded as the burdens of competition.

The Standard Oil Company is usually referred to as the first great industrial combination. It pioneered in devising methods for driving out or absorbing competitors. It pioneered in devising new legal devices—such as the trusts and harmony of interest between nominally competing companies—for effecting combinations to reduce or eliminate competition. Later the holding company was devised as a means of evading the prohibitions of the Sherman Antitrust Act. But the movement toward industrial concentration was general in character and causes, and by 1900 there were literally hundreds of industrial "trusts" in existence, representing consolidations of thousands of individual companies. Control of the market by these trusts ranged from as low as 10 percent—which obviously did not represent much control, except locally—to as high as 95 percent of the market for their specific products. Twenty-six trusts in 1904 similarly controlled 80 percent or more of the market and nearly 80 controlled more than 50 percent of the market.

The competitive structure of the economy was steadily altered, also, by the rapid growth in the size of business units in general—growth in size, resulting from the expansion of the operations of individual companies and not from consolidations or combinations.

Broadly speaking, there were three main reasons for the trend toward business concentration which is the outstanding development of this period, (a) the desire to obtain the promotional and speculative profits associated with organization and management of industrial combinations, (b) the desire to obtain the economies associated with large-scale operations—especially integrated operations, and (c) the desire to escape the burdens and costs of competition. If anything, this third factor was the most pervasive and most influential of the three.

I have gone into these historical developments at some length for two reasons, (a) except in relation to these developments, the growth in the demand for government regulation of business can hardly be understood and (b) it is important to recognize that by 1900, there were numerous and extensive departures from the free, competitive economy envisaged by Adam Smith and his followers, from free competition which was as indispensable to the proper functioning of the economy as was fre from government interference.

The active movement to regulate big business got under way in the years following the Civil War. It was conducted on both the State and Federal levels, but with the rapid growth of large-scale production for national markets, operating in interstate commerce, the problem of regulation became increasingly a Federal one.

The two basic laws here were: the Interstate Commerce Act of 1887 and the Sherman Antitrust Act of 1890. Between 1868 and 1886, over

150 bills were introduced in Congress providing for some form of Federal control over the railroads. That will give you some notion of the widespread interest in this problem at that time.

The Interstate Commerce Act of 1887 did two principal things: It forbade certain objectionable practices by the railroads--chiefly, rate discrimination and rebates; pooling agreements; and "unjust" and "unreasonable" rates. And it set up the Interstate Commerce Commission to administer the law.

But for 20 years, the Interstate Commerce Commission accomplished very little apart from gathering and publishing facts about rail transportation. The Commission accomplished little because it lacked the power to carry out purposes of the law. The railroads carried on a form of legal obstructionism which was hard to beat and the attitude of the courts was unsympathetic. The ICC went down to defeat again and again when it carried its cases into court. In the 1900's, the "Progressive Movement" got under way. At last the heat was put on for really effective regulation of railroads. The result was the Hepburn Act of 1906 and the Mann-Elkins Act of 1910. These gave the Interstate Commerce Commission the first really effective control over the railroads--the key control being power over rates. The battle for regulation by this time, so far as the railroads were concerned, was now won and other acts followed extending both the authority and the coverage of the Interstate Commerce Commission. Down to 1935, some 30 different acts had been passed relating to interstate commerce. This legislation in 1935 covered 285 pages.

Eventually Federal control was extended, through Federal power over interstate commerce, to express and sleeping car companies, pipelines, telegraph and telephone companies and radio, motor carriers, aviation, and water transport.

The regulation of other forms of big business under the Sherman Act followed a somewhat similar course. For twenty-five years, this law had no appreciable influence upon the conduct of business enterprise. Eventually, through the passage of the Federal Trade Commission Act and the Clayton Antitrust Act, both in 1914, the prohibitions of the Sherman Act acquired some force. These acts put teeth into the antitrust legislation by forbidding a variety of practices restraining trade and limiting competition; and by creating a Federal agency to administer the antitrust laws.

During the 1920's, what with prosperity and the Republican administration in power, there was something of a lull in the movement for the regulation of big business, but the depression years and the coming of the New Deal changed all this by the tightening up the administration of the laws, extending the scope and range of controls of old regulatory agencies; and establishing new regulatory agencies to do new jobs. Today there is an impressive group of Federal regulatory agencies--about 12 all told, regulating carriers, utilities, regulating industry generally, regulating finance and credits. We have agencies which regulate the quality of foodstuffs, drugs, and cosmetics, and enforce minimum wages and hours legislation, and so on.

I have gone into this development of Federal regulatory activities in some detail for a very definite reason. The movement to secure such legislation has been a long and difficult one. Every step of the way has been vigorously contested and bitterly opposed by the interests chiefly affected. Each new proposal for regulation has in turn been denounced as, (a) an infringement upon free enterprise and (b) as violating the basic laws of economics. Yet as seen in perspective, it is pretty clear that nearly all these regulatory laws represent an effort--and often, one may feel, a clumsy, blundering effort--to accomplish one thing; namely, to try to make the American economy in its operation conform to the theory of free enterprise, that is, to the theory of laissez-faire as developed by the classical economists.

How? By discouraging monopoly and monopolistic practices; by protecting and facilitating competition; by maintaining public controls over monopoly where monopoly seems in the public interest--as in the case of utilities, such as power, or by preventing competition from going to harmful extremes in conflicts between such major interest groups as capital and labor; by discouraging harmful competitive practices or, to put it differently, by promoting fair competitive practices.

There have been other governmental developments, however, that go much beyond regulations designed to insure that free enterprise is free. These developments have largely grown out of two types of crises situations which the American people have had to face during the past 35 years--the crises of World Wars I and II, and the crisis of economic depression.

In each World War I and II, as we have seen, we tried to cope with the emergency at first by business-as-usual methods--by giving free enterprise a free hand to do the job, and in each case we were soon compelled by the hard facts of life to suspend for a time certain basic features of the private-enterprise system. After all, the private-enterprise system was developed to meet the needs of business and it is no reflection on that system that it was unable to cope with new conditions of war in the twentieth century. So we adopted and administered the various economic controls you are hearing and will hear so much about.

Just what is the significance of this wartime experience for American economic development--and, more specifically, for the relations of government and business enterprise? For one thing, it was demonstrated in the First World War and again in the Second World War that, despite all our convictions about the superiority of what we call the free-enterprise system, the government-controlled economy of wartime not only made the tremendously difficult transition from peacetime to wartime production, but also in total output exceeded anything hitherto achieved by the free economy of peacetime. Paradoxically, the wartime production achievements which demonstrated the efficiency of a controlled economy also did much to restore a faith in the American economic system that had been badly shaken by the experience of the depression years.

The experience of two world wars showed that it was possible to control and direct the economy toward the attainment of national objectives--at a price, of course, because we gave up many of our freedoms in the business and industrial field. Nevertheless, by paying the price, we were able to accomplish extraordinary things. If this could be done during wartime for war purposes, why not in peacetime for quite different purposes? So you see war dealt a severe body blow to the doctrines of laissez-faire and "natural" economic laws.

The wartime experience in operating a controlled economy also resulted in a greatly increased knowledge and understanding of the economic system and how it worked. For the first time we were compelled--and I am now speaking of the First World War--to consider the national economy as an integrated, functioning whole. In order to do the job we had to assemble a lot of basic data about the economy as a whole--basic data which were not available when the First World War came--how much did we have of raw materials, industrial capacity, and manpower: What was our output of hundreds of commodities essential to the war effort? We had to discover ways and means of guiding and directing the productive forces of the Nation. We had to acquire an intimate knowledge of the working of the economic system if we were to direct it effectively.

The impact of the depression upon the relations of government and business enterprise was, in some respects, even more striking. There is no need to remind you that the depression of the thirties was nothing short of economic catastrophe. National income declined from a high of 66 billion dollars in 1928 to a low of 35 billion dollars in 1933. Some adjustment has to be made for the difference in price level; the decline was less extreme than these figures indicate but it was great. The index of factory employment fell from 102 in 1929 to 63 in 1933. Unemployment rose from less than half a million in 1929 to nearly 12 million in 1933, or nearly one-fourth of the gainfully employed workers. The national morale was shaken; pessimism and defeatism were widespread.

You may recall that for a time during the Hoover administration, there was a tendency to adhere to the doctrines of laissez-faire and to let the galloping deflation run its natural course with little intervention by the Federal Government. But the people, confronted by a condition of economic depression, refused to be governed by an economic theory going back 150 years--and soon the New Deal was under way.

Some of the New Deal measures were simply an extension and elaboration of the existing regulatory activities of the Federal Government. They represented an effort to restore and enforce competition; to control and regulate monopoly where monopoly was unavoidable; to check or eliminate unfair competitive practices. Such were the main objectives, for example, of the Securities and Exchange Act of 1934; the Banking Act and the Public Utility Acts of 1935; the Food, Drug, and Cosmetic Act of 1938; the tightening up and expansion of antitrust enforecement measures.

Much more significant, however, for their effect upon the functioning of the economic system, was a succession of moves by the Government into fields heretofore the exclusive domain of business enterprise. The most striking, in some respects, was the move into the field of production itself. In the field of public power, a series of great hydroelectric projects were begun in the East and West--TVA, Grand Coulee, and Central Valley. In the case of TVA, especially, power production and flood control were combined with regional planning and development programs on a large scale.

Less spectacular, but probably more important for the economy as a whole, was the entrance of the Federal Government into two of the most fundamental fields of business enterprise--the supply of credit and the bearing of risks. We have a whole network of agencies set up to provide credit to businessmen, to farmers, and to home owners--the Home Owners Loan Corporation; the Reconstruction Finance Corporation (which was set up in the Hoover administration but expanded during the depression period), and the Farm Credit Administration, among others. Still other agencies have put the Federal Government into the insurance business in a big way--the Federal Security Agency, covering unemployment and old age insurance; the Federal Deposit Insurance Company; the Federal Crop Insurance Corporation; and the Federal Savings and Loan Insurance Corporation.

I shall not attempt here to call the roll of all the kinds and forms of Federal intervention in the economy. Nor shall I discuss the rapidly expanding role of state and municipal governments. I wish simply to mention some of those which have particular significance for the functioning of the private-enterprise system. There are, however, three other forms of Federal intervention to which I shall refer briefly: Intervention in behalf of the farmer and the wage earner, respectively, and acceptance of responsibility for keeping the economy as a whole operating on a moderately high level.

Up until very recently---say the past 20 years---the farming and wage earning sectors of the economy have been almost the only sectors in which the assumptions of the classical economists were at all realized. There was in these fields much of the atomistic competition of which Dr. Piquet spoke and in which no producer could influence the market, that is, prices, by his individual behavior.

As late as 1929, only 10 percent of the wage-earning class was organized in labor unions. In other words, nine-tenths of the wage earners were competing with one another, directly or indirectly, in the labor market. In dealing with employers, these unorganized workers made their wage bargain on an individual basis.

Again, take the farmer---as late as 1934 there were about seven million farms in the United States. Most of them were small, independent enterprises. The average farm had an investment in land and buildings of less than $5,000. Nearly five million farmers were engaged in the production of corn; nearly four million in the production of hogs; nearly two million in the production of cotton, and so on. Here you had free, competitive enterprise, and how! In what other branches of business enterprise will you find anything approaching this? Only a few even remotely---chiefly retail distribution and the service trades.

It's very illuminating to see what happened in agriculture, with its full and free competition conforming to the ideal of the classic economist, during the depression compared with some of the more concentrated areas of industrial enterprise. Agricultural production (that is, output) between 1929 and 1933 dropped only 6 percent, but agriculture prices under the pressure of atomistic competition fell 63 percent. If we turn to such highly concentrated industries as iron and steel, cement, agriculture elements, and motor vehicles, where ownership was concentrated in a relatively small number of large corporations, we find a very different picture. During these same years, 1929-1933, production fell on an average of 75 percent but price declines ranged only from 15 to 20 percent, compared to 63 percent in agriculture. Here we see, in dramatic contrast, the difference between highly atomistic competition of the old sort and the newer type of competition that the economists refer to as monopolistic competition.

Under conditions of mass unemployment of wage earners, the collapse of agriculture prices, and the wholesale foreclosure of farm mortages, it is not surprising that the economic groups affected showed slight attachment to laissez-faire; that they sought and obtained a variety of forms of government intervention in their behalf.

Finally, the Federal Government is moving gradually, but, it would appear, almost irresistibly toward an acceptance of responsibility for keeping the economic system operating on a moderately high level of productivity and employment. The passage of the Full Employment Act of 1946 and the creation of the President's Council of Economic Advisers is the first formal step in this direction.

I can perhaps guess the thoughts that are running through the minds of most of you. The outlook seems very gloomy indeed for the future. Everywhere we see the enroaching hand of the Government and a steady expansion of the influence of the bureaucracy. The outlook for private enterprise at times may seem very dim.

Perhaps these gloomy forebodings are quite justified; maybe our economic system is slipping and on the downgrade. Perhaps the "good old days" are gone forever. But let me raise the question, "Doesn't much of this feeling have its roots in an idea, in a theory of the proper relationship between business and government, namely, the theory of laissez-faire, which is part of the thinking of most of us? Yet, as I've tried to point out, at no period in the development of the free-enterprise system in this country, has this doctrine ever been made really operative. Government has never fully observed it; business has itself violated the principles of laissez-faire again and again and on a large scale. Labor in its long and at last successful struggle for organization has not hesitated to brush aside these principles and the farmer has done the same. Remember, too,--and I think this is particularly significant--most government intervention has resulted from failure of private enterprise to function according to theory of the classical economists.

This is not to suggest or to imply that any or all government intervention of the kinds we have had is either good or desirable. We may have had the wrong kind of intervention that is going to have cataclysmic results in the end. It is simply to suggest that any thinking about economic matters, based primarily upon the laissez-faire doctrines of the classical economists, rests upon somewhat shaky grounds and had better be carefully reviewed. Like Dr. Piquet, I do not presume to tell you the answers to the problems of the relations of government to business enterprise for I do not know the answers nor anyone who does. Unquestionably these problems are very difficult, very complex, and numerous.

I do, however, suggest the wisdom of facing these problems squarely and of recognizing that they are not to be resolved by taking our stand on doctrinaire or theoretical positions, whether of the right wing or the left, whether in the nineteenth century or the twenty-first century. The politico-economic issues of our time are not capable of being solved by theoretical formulas or by economic cliches whether the formulas are inherited from 150 years ago, as in the case of laissez-faire, or of more recent origin as is the case with some which are official doctrines in the totalitarian regimes.

One final word in closing: My approach this morning has been essentially negative. I have simply tried to clear away some of the brush which obscures our view of the problem and hinders our dealing with it. I have not suggested positive means by which problems of politico-economic relations are to be solved. The resources of the historian are hardly capable of such a task. I have simply tried to suggest that there is but slight factual foundation for the view that the success of the American enterprise system is based on the practice of laissez-faire or government hands off. Any hope of resolving the difficult problems of government-business relations by the simple formula of government hands off is an illusion. Indeed, it is difficult to escape the conclusion that the persistent popularity of the doctrines of laissez-faire has rested in recent decades mainly on their usefulness to certain economic interests in the maintenance of the economic status quo.

For a positive approach to the economic problems of our time, especially politico-economic relations, we will hear Dr. Means on Tuesday.

QUESTION: Dr. Hunter, you mentioned the greatly increased productivity of industry in wartime and implied, I believe, that this was due to its regulation. Don't you think that was due largely to patriotic feelings, that the people submitted to regulation and avoided debating it so that was really not very applicable to wartime conditions?

DR. HUNTER: You are quite right. The element of patriotism obviously did make it work. We wouldn't be able, with the public temper as of the present time, to introduce such a system in peacetime unless a peacetime crisis arises of comparable magnitude, and another depression similar to that of the 1930's, I think, would be of comparable magitude. I am simply trying to make the point--and perhaps I'm simply tearing down a straw man that doesn't need tearing down in your own thinking--that we did intervene in a very active, positive way. We took away many economic freedoms during both the First World War and the Second World War, and at the cost of those freedoms, we did get extraordinary results. Such results, however, would not have been obtained if the public had not been behind the Government in its drastic program of controls.

QUESTION: Dr. Hunter, isn't it true that we had, you might say, almost developed a similar condition in peacetime during the thirties, in which almost as strong, if not stronger, regulatory laws, regulations, and so on, were put through with very little success over a period of time, except to the point where we greatly overextended government credit, I mean we poured more money into it with very little success during that time.

DR. HUNTER: I suppose it is, but by this time we have gotten sufficiently beyond the emotions of the 1930's that schools of thinking are agreed that in a positive way, except as a kind of rescue operation, the measures of the New Deal were hardly effective. They represent experimentation in an effort to try to find out, to do something to deal with an unprecedented situation, at least a situation on an unprecedented scale--the scope of the depression. They tried this thing and they tried that thing, and we know the lack of success of many of those measures. It is difficult even to measure the degree of the success of those which seem to have had some degree of effectiveness. It is so difficult to separate the influence of the many factors which were operative and to say what factors were really responsible for such measure of recovery as we did have in the late thirties. Was this perhaps due to the natural resilience of the enterprise system itself? Was it due to the Government's pumping huge sums of money into the system? These elements are very difficult to appraise, and those economists who have given most careful attention to it are the least willing to venture positive answers. But it was an attempt to deal with a situation with which we had very limited experience before, and we had to try to devise new tools. What I am saying is simply this, that if another depression of comparable magnitude occurs, the Government will most certainly move in again. Whether its measures will be well-advised, will be adequate, will be the kind of measures that will do the trick, will have, not only good short-term results, but avoid undermining the effectiveness of the system in long-range terms, that is, of course, in the lap of the gods. We just don't know.

QUESTION: Dr. Hunter, I would like to take slight issue with you on one point in which you suggested that the majority of the people favor the laissez-faire theory, particularly that theory designed some 150 years ago. I remind you that you made the comment that the agriculture people after 1933 sought government intervention in their behalf. We normally don't turn away from intervention, or what have you, in our behalf. Most of the intervention, I think, has resulted in benefit to their behalf.

One other minor matter that I might cite--not take issue with you, but suggest--has been omitted from some of these considerations so that we still are analyzing conditions, particularly people's opinion in terms of, maybe, 15 or 20 years ago, and we say they don't care for large corporations as evidenced by the Sherman antitrust laws. However, statistics in one of our required reading pamphlets indicated that in a 10-year period, 1930 to 1940, the sum of only about 4.5 million dollars was collected in fines for violations of this law, which would put us in the position of enforcing regulations of the bootlegging laws by fining the local bootlegger $3 or $10 occasionally. We have allowed him to grow up and generally benefit from them, I believe. At the same time, I think we do not, as a whole, so strongly favor free enterprise as we keep saying we do.

DR. HUNTER: Well, on the second point first—of course, when I speak of the public reaction, of what the public wants, when Congress takes action in a given direction and the majority of the people supports Congress at the polls, I assume that public sentiment favors the action taken. In view of the long-continued and continually widening drive for regulation of business, there seems to be little doubt that the public has been behind it. And there are contradictions again and again in the behavior of Congress. We have laws on the books, but Congress declines to appropriate money for the enforcement of those laws. Different political administrations vary in the strictness with which they interpret and administer the laws.

Down to 1933 there were, I believe, never more than 25 or 30 lawyers employed in the Antitrust Division of the Justice Department. Think of 25 or 30 lawyers trying to police the large-scale industrial and financial enterprises of this country, many of them billion dollar corpora- tions. Under the New Deal, of course, the appropriations available were increased, but again and again we hear complaints that the Anti- trust Division has inadequate resources to do the job that it is expected to do under the law.

Now to come back to the first point, I did not mean to say that the public supported laissez-faire. The burden of my whole discussion has been that the public as a whole has never supported fully and consistently the practice of laissez-faire with respect to the actions either of government or private individuals. Even in periods, when there has been nominal acceptance of the theory of laissez-faire, in specific situations which appeared burdensome, the groups affected rarely hesitated to request government intervention in their behalf. Keep in mind I am not suggesting that this intervention was good, bad, or indifferent, or that the particular form intervention took was effective in accomplishing the end in mind.

QUESTION: Doctor, I question your conclusions there a little bit. Our Government has been historically a government of pressure groups. We have never been a government by the majority. We have always been a government by a well-organized minority. Your theme has been that, because these small pressure groups have turned to government, the average American people or the average of the American people or the American individual doesn't believe in this doctrine of laissez-faire. I believe if you would stop the first 100 fellows that walk down the street and ask them if they believe that the Government should run business, you would probably get 99 of them to say no. Period.

DR. HUNTER: That is right. I think there is a slight misunderstanding as to the way we are meeting the issues here, but what I have tried to stress is that in every period in our history there has rarely been a group which has both preached and practiced laissez-faire wholeheartedly and consistently. Nearly all groups oppose government aid, except to themselves, and, in varying degress, support regulation of other groups, but not themselves.

I agree with you that, of course, it has been pressure groups that have played a significant role throughout our history, though, of course, the organization of pressure groups in a big way is something that has come especially in the last half century or so.

QUESTION: In Lord Bryce's book, "American Commonwealth," he makes the observation that a country is governed best which is governed least. Now in this country today we find the Federal Government, we find the State Government, and we even find county government, and then cities of the United States passing laws of all sorts. Do you subscribe to the point of view of Lord Bryce in his famous "American Commonwealth" book?

DR. HUNTER: The important thing is not whether I subscribe to this point of view or not. The important thing which I've tried to point out is that this point of view has never been fully and consistently supported by the American people or any major group in this country, including the business groups who have at times been so vocal in their demands for government hands. I think the important thing is to see what happened, what have been the views that have been held with respect to the proper relationships of business and government and the changes that have taken place in the views held by different segments of the American people.

COMMENT: Dr. Hunter, if you will permit, I would like to come to your assistance. I think it may very well be true if you stopped 100 people on the street and asked them whether or not they were in favor of Government's running the business of the country, 99 of them would say no, but if you asked the same 100 people whether they were in favor of the Veterans' Hospital Program, if you asked them whether they were in favor of the tariff program, or any of the other aspects of government interference in business which affects their own personal lives, you would get an entirely different answer. I think the point Dr. Hunter is trying to make is that, while in our thinking we like to believe we do not like to have government interference in business, in practice each economic group of the country, and therefore the country as a whole, has supported and continues to support certain types of government interference in economic activities which happen to meet their particular interests and their particular needs.

DR. HUNTER: Thank you very much for the amplification.

COLONEL BARNES: It is quite apparent, Dr. Hunter, that you have given the class a great deal of matter to think over and they will have plenty of opportunity to do that. If some of these questions are unanswered in your minds now, we have your final review conference next Wednesday afternoon for that purpose. Thank you very much, Dr. Hunter. It has been very enlightening.

(22 Jan 1951--350)S.