AMERICAN PRIVATE ENTERPRISE--ITS CHANGING CHARACTER AND PROBLEMS

19 September 1950

CONTENTS

Publication No. L51-19

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

AMERICAN PRIVATE ENTERPRISE--ITS CHANGING CHARACTER AND PROBLEMS

19 September 1950

DR. HUNTER: General Vanaman, General Holman, gentlemen: This morning we are nearing the end of the series of lectures on economics in the orientation unit. The purpose of this series has simply been to review very briefly the general scope of economics and to indicate the general characteristics of the American economic system, together with something of the problems with which we have to deal in peacetime. In this way we have tried to provide a certain base line against which to evaluate the economic problems of war periods.

Despite the steady growth of government intervention in economic life, which I traced at a previous period, ours is still a private enterprise economy. It is an economy which has demonstrated an extraordinary growth, an extraordinary productivity, and, no less, a great flexibility and resiliency. It is an economy, too, that, as we all know, has certain weaknesses, especially those bearing on its stability. Less fully appreciated, I think, is the fact that the private enterprise system has itself been in continual process of change--not simply change in size and productivity, but change in its character--in its fundamental characteristic.

This change in character and problems in our economic system is the topic for consideration this morning, and to discuss this subject we have one of the ablest economists. Few economists, I think it is fair to say, during the past generation, have given more attention to the actual structure and the actual functioning of the American economic system. The book "The Modern Corporation and Private Property," written by Dr. Means and Mr. Berle, has become a kind of classic in the field of American economics, and its publication is a landmark in the study and understanding of our economic system as it has been functioning during the past generation. The book is rather large, and some of you won't get to it during the next few weeks of this course. So I refer you to a smaller volume written by Dr. Means and his wife, Caroline F. Ware, called "The Modern Economy in Action."

Dr. Means has a distinguished record of public service. His most notable assignments in more recent years, I suppose, have been with the old National Resources Planning Board, the predecessor, in a fashion, of our present Council of Economic Advisers; and, during the past seven years, with the Committee for Economic Development (CED), of which he is now a research director. Dr. Means.

DR. MEANS: Thank you, Dr. Hunter.

I want to express appreciation for having an opportunity to come over and talk with you. My "press agent" has given you an exaggerated idea of my background, but some of the things that he has said are certainly true.

In talking about the private-enterprise system, one cannot really describe the system in a 40-minute period. All he can do is hit the high spots.

Dr. Hunter has already outlined for you the origins and development of the laissez faire philosophy, the decline of competition, and the increase in government functions.

Here I want to discuss the changes that have taken place in the dominant types of enterprise--individual enterprise, factory enterprise, and corporate enterprise--and trace through the implications of these changes on the behavior of our economy and the problems it has created. I have chosen to do this because, if you are really going to understand the kind of economy we have today and why the problems that exist are there, you have to go back to the enterprise system that existed perhaps a hundred years ago and consider the way the experts of that time looked at the system, described it, and worked out the solution of their problems. I think that we will find most of the major problems that face us in our economy today, apart from the defense activity, grow out of these basic changes and our failure to grapple with the theoretical problems that these changes have created.

Back in the days when this Nation was created, the dominant type of enterprise was the individual producer, who himself was owner, worker, and manager. In those days there was no stock market because few enterprises were incorporated, and labor unions were unimportant because hired workers were such a small part of the population and because the relation between master and servant, or hired hand, was so personal.

Individual enterprises are the rule today in farming and are frequent in retail distribution. Typical of American farming is the family farm, perhaps with one hired hand, or using temporary labor to get in the hay or fill the silo. One-man retail stores are also frequent. But in most other fields the one-man enterprise, the true individual enterprise, has come to be the exception.

It is not difficult to imagine an economic system in which all productive activity is carried on by individual enterprises, with practically no hired workers. Most of the earlier economists described an economy made up of individual enterprises and worked out answers to all the major problems that could be expected to arise in such an economy. In such an economy the individual producer would buy raw materials and tools and would produce food, clothes, or some other product and sell it. The central characteristic of such an economy would be the buying and selling in the market. Quite understandably, the traditional economists made the market the center of their focus and showed that where production was carried on by individuals buying and selling in the market and the resultant free-market prices would make the economy run well: There would be full employment and there would be high and progressing productivity as the pressures of competition made each producer try to do a better job.

I have never seen any reason for questioning the conclusions of the traditional economists with respect to that kind of an economy. But by the middle of the nineteenth century the factory had come to play a major role in production.

I don't need to describe to you what factory production is like. Most of you have been connected with or visited in factories. But I do mean to bring to your attention certain characteristics of factory production that are important for what I am going to say here.

From the point of view of the working of our economic system, the most important difference between individual enterprise and factory enterprise lies in the separation between the owner-manager on the one hand and the workers on the other. In the factory enterprise, the owner-manager directs his men much as does an officer in the Army. Within the factory, the actions of the separate workers are made to fit together by administrative direction under a hierarchy of officers--plant superintendent, department heads, foremen, and so forth. The power to disciplir in a factory may not be so great as in the Army, but the principle of organization is essentially the same, with line and staff. Such administrative direction is practically nonexistent in individual enterprise.

This principle of organization is so important that economists have come to apply the term "factory enterprise" to enterprises which bear little relation to what is usually thought of as a factory. When a farm is carried on by a large number of hired workers and managed by the owner, it is sometimes referred to as a factory farm. Stores employing many workers also take on the characteristics of factories, so far as this organizational characteristic is concerned. Thus we can refer to owner-managed enterprises employing many workers as factory enterprises.

In a few minutes I will go into the implications of these factory enterprises for the working of our economic system and the problems it has created. Before I do that, I want to introduce the third type of enterprise that is of major importance today--corporate enterprise.

By the latter part of the nineteenth century, an important part of enterprise had been incorporated and was operating under a type of organization that was neither individual enterprise nor, strictly speaking, factory enterprise. It has been called corporate enterprise.

The essential characteristic of corporate enterprise, for our purposes--and most of the big companies you are familiar with would come under the heading of corporate enterprise--is that it not only employs many workers, but its ownership is scattered among many individuals. Some of our larger corporations have tens and even hundreds of thousands of stockholders, and no one stockholder owns a significant proportion of the total stock.

The fact that one enterprise can employ thousands of workers and bring together the capital of thousands of investors, and, through its corporate charter, can have unlimited life, means that huge enterprises are possible--General Motors, U. S. Steel, A. T. & T., to name a few. As we all know, large-scale enterprise has come to be a characteristic of our present-day system.

Before examining the new problems which have been brought by factory and corporate enterprise, I want to review quickly the growth in the scale of enterprise and the relative importance of individual, factory, and corporate enterprise today.

The figures available on the relative scale of enterprise are far from satisfactory. We know that most of farming, much home ownership, and a good deal of retail distribution is carried on by very small enterprises, mostly individual enterprise. On the other hand, a very high and slightly rising proportion of the industrial part of our economy is carried on by corporations. (Here I include as industrial all manfacturing, mining, railroads, public utilities, construction, and distribution. This covers the heart of our modern economy. It excludes government activity, housing, and agriculture.) We also know that in the 24 years from 1909 to 1933 there was a great increase in the relative importance of big enterprises. In 1909 the combined assets of the 200 then largest corporations amounted to about one-third of all industrial assets. By 1929 the proportion held by the 200 then largest corporations amounted to 48 percent. By 1933 the 200 largest corporations owned approximately 55 percent of the corporate industrial assets. That certainly amounted to more than half of the assets of all industry, whether incorporated or not.

Unfortunately, there are no comparable figures more recent than 1933. Some people have felt that the concentration has continued since 1933. I am not altogether certain of this. The figures are conflicting. It is a long story to weigh the pros and cons as to whether there has been increased concentration. I think it is clear that there has not been deconcentration. I think it is fair to say that half of the industrial assets are still controlled by the 200 largest companies, including the big railroads, the big public utilities, the big manufacturing companies, and some big retail chains and department stores. The really significant fact for us is that the 200 largest companies do control half of the industrial assets of the country.

With respect to the number of employees, industrial workers are probably a very much smaller proportion of all those employed by the 200 biggest corporations. It is characteristic that the industries that become concentrated are the industries in which a large amount of capital per worker is used. In the textile industry, where labor is relatively more important than capital, we have large numbers of small cotton mills and small woolen mills and woolen mill companies. But in steel, in the automobile industry, and in the public utilities and railroad fields, where huge amounts of capital investment per worker are necessary for high efficiency, we find concentration. The 200 largest corporations do not employ so much as half of industrial labor, but a very considerable amount, neverhteless.

I once tried to figure what proportions of our present-day economy could be said to be carried on by individual enterprise, by factory enterprise, and by corporate enterprise. After a great deal of pencil pushing, head scratching, and guessing, I finally arrived at this rough conclusion: Approximately one-third of our total production is carried on by individual enterprise, including most of farming, some retail, and quite a few technical and professional activities that have so few employees that we don't think of them as factory enterprise; another third of production could be said to be carried on by factory enterprise, including most of our medium-sized enterprises and some of our very big enterprises (in the Ford Motor Company, for instance, the stock is closely held, and I think it has to be classed as a factory enterprise); and another third could be said to be carried on by corporate enterprise, in which ownership is widely distributed, large numbers of workers are employed, and problems are set up that I will come to in a moment.

Now for the significance of factory and corporate enterprise. I want to discuss here only four major changes which have arisen from the prevalence of these types of enterprise and the increased scale of enterprise which has accompanied and been made possible by these changes.

You may be wondering why I am placing such emphasis on the factory and the corporate form in comparison with the individual form. I will go back to what I said at the very beginning. Most of our economic thinking up to the last decade or so has really focused on how an enterprise system operates when all enterprise is carried on by individual enterprises. You can search traditional economics before 1900 and find practically nothing that really takes account of the problems introduced by factory enterprise, and certainly nothing that takes account of the problems raised by corporate enterprise. It is really, to me, looking back on it as a matter of hindsight, phenomenal, it is remarkable, it is almost incredible; but there it stands. Our basic business policy has been built on the conceptions of an enterprise system that included only individual enterprise, or that brought into the thinking no significant changes because of factory enterprise and corporate enterprise.

What are some of the new situations that would not exist in an individual enterprise economy but that do exist where an important part of production is carried on by factory enterprise or corporate enterprise? Though I am going to list only four major new problems, I think you will discover as I discuss them that they cover most of the really serious problems that our society is faced with today, outside the field of defense.

The first important change is that factory enterprise brought a separation of the worker from control over the instruments of production--tools, machines, and raw materials--and thus created a major problem of the status of the worker.

Second, corporate enterprise brought a corresponding separation of the owner from control over the instruments of production and set up a whole new set of problems with respect to the relations between stockholders and management, between management and workers, and between management and consumers. It poses a whole new problem of the responsibility of management.

The third major change--in the factory enterprise and in the corporate enterprise, both employing large numbers of workers--is that the market for labor and the determination of wage rates became an important factor in the working of the economy.

Finally, the increased scale of enterprise made possible by factory and corporate enterprise narrowed down the area of competition, as Dr. Hunter has already indicated to you, and, most important for our purposes here, changed the character of the pricing process.

I will now go through those four major changes. When you think that a hundred years ago there were many factories and corporations in existence, it is rather remarkable that traditional economists did not introduce the implications of these changes into their analyses. They were aware of the narrowing of competition due to factory and corporate enterprise but treated it in traditional fashion--as just another case of the pricing of scarce commodities when sellers were few. The economists were aware of the increased importance of the labor market but treated labor as a commodity and assumed that its price was reached in a fashion comparable to that of other commodities. And they paid little attention to the separation of workers and owners from control over the tools of production.

It was Karl Marx who really took account of factory enterprise. He registered the separation of the worker from control over the tools of production and built on this his whole conception of class conflict--the owners versus the workers. There was no such possibility of class conflict in an individual-enterprise economy. Marx was wrong in believing that this separation of the worker from control over the instruments of production could lead only to the exploitation of workers. The rising standards of living among the workers in this country make that abundantly clear. But he was right in believing that the separation presented a real problem to our society.

We have recognized this problem, in part, by according status to workers through labor unions. Also, we accorded some recognition to this fact in the labor-management committees that were used somewhat during the recent war and many of which still survive and function. The Army took account of this separation in some degree during the recent war when special efforts were made to bring labor leaders into the camps to show them what the military problems were. But we are still a long way from making a full adjustment to the separation of workers from control over the instruments of production. We have not yet accorded the worker full status in the modern industrial society.

As a matter of fact, we don't even yet know what we should mean by "full status." The separation of the worker from control over the instruments of production does not enter into our policital philosophy at all. If you go through the Constitution, you will find nothing in it but what applies to an individual-enterprise society. Some of our legislation takes account of factory enterprise, but nobody has developed a rounded philosophy of an enterprise system in which workers are separate from control over the instruments of production. That still lies in the future. The person who does that will be doing for factory enterprise what Adam Smith did for individual enterprise. We just don't have the book yet. We are dealing with many of the problems on which, someday, some broad, philosophical mind will give us a pattern that can act as a guide in both the political and economic spheres.

We have made even less progress in dealing with the problems arising from the separation of owners from control in corporate enterprise. That the stockholders, either individually or collectively, have little to say in the operation of many of our big corporations is well recognized. Traditionally, it was the profit-striving efforts of owners that led them to run their enterprises well. Profits made the mare go and she hauled the wagon behind her. But corporate enterprise has cut the traces. If the owners don't control the enterprise, can profits perform their traditional function? Profits can still operate to stimulate risk-taking by investors. But when real control over corporate enterprise lies in the hands of management, can profits going to stockholders make the management run the corporation better?

This raises the larger question: In whose interests should the management of big corporate enterprise run the corporations? Should the management operate only for the stockholders? Or does the management have a responsibility to the workers and the consuming public as well? Is the management to be an agent for the stockholders or an arbiter between the interests--partly conflicting and partly parallel--which make up the corporate enterprise as a going concern? These interests include the people who supply the capital, the workers who operate the machines, the consumers who buy the product, and the management who makes the thing go. Consumers are just as much a part of a corporate enterprise, largely considered, as are the laborers or the stockholders. What is the function of management to be?

In working with the Committee for Economic Development and chewing the rag with some of the leaders of corporate enterprise who are trustees and members of our Research Committee, I am constantly amazed at the broad vision with which they look at our economic problems and the problems of running their own enterprises. It may be that we are in the process of establishing a broader responsibility for the managers of big enterprise, where stock ownership is widely scattered and where thousands and hundreds of thousands of workers are employed. It may be that we are going to get something quite new out of the separation of ownership from control.

The expanded role of the labor market has raised two major problems--the process by which wage rates are set and the inflexibility of wage rates once set.

It has become very clear that labor is not a commodity to be bought and sold like wheat or cotton. When the farmer has sold his wheat, that is the last he sees of it. When the worker sells his labor, he has to work for the guy who bought it. Hiring a worker establishes a continuing social relationship between the worker and his boss. This relationship carries responsibilities and contains the basis for friction on both sides. The worker sells himself; he is to be bossed during working hours. This is a situation that never was adequately analyzed in terms of our economic system as a whole.

Furthermore, the increasing scale of enterprise has put the individual workers in an extremely weak bargaining position, which collective bargaining seeks to correct. Does collective bargaining overcorrect and place the producer in an unfairly weak position? Once collective bargaining is established, are the results likely to be satisfactory to consumers, or is there danger that management and labor will get together in ways detrimental to consumers? On what principles should wage rates be set? These are questions still seeking answers.

It is clear that modern industry cannot expect wage rates to be set by the market, as are the prices of wheat and cotton. A new philosophy of setting wage rates still remains to be established. We are in the process of sweating it out. I might say that the arguments between economists as to how wage rates ought to be set or come into being are every bit as acrimonious as, let us say, the conflict as to whether a supercarrier should be the means of carrying the atom bomb.

Wage rates in a concentrated enterprise economy involve a second problem--their inflexibility to short-run changes in the demand for and supply of labor. This inflexibility arises whether labor is organized or not, and whether rates are set by collective bargaining or by the administrative action of business. In a moment I will discuss the effects of this inflexibility, along with the corresponding inflexibility of prices.

The fourth major change in the economy resulting from factory and corporate enterprise is the change in the character of the pricing process. In much of industry, prices are set by administrative action and changed only from time to time. The price of steel may be set for three months at a time. The wholesale price of automobiles may be set even for a whole season at a time. These administered prices are not sensitive to short-run changes in demand or costs, and it is yet to be established how reasonable a relation these administered prices tend to bear to costs even in the longer run.

When I speak of administered prices, I don't want you to get the impression that an industry can pick any price it chooses and slap it on its product. Price administration lies usually within a range. The business management has the opportunity to set a somewhat higher price and make fewer sales or set a lower price and make more sales. Some companies will operate in terms of the higher price in that range; others will act in terms of the lower price in that range--for a group of reasons some of which may not be strictly economic. The important point is they have a range within which they can choose to price their product.

In the aluminum industry before the war that range was probably very wide. In the aluminum industry today the range is probably narrower. I am speaking, of course, of the period before the defense program got under way, because the defense program, with its great demands for aluminum, has changed that picture.

There is thus variation in the breadth of the range within which the price can be administered, but a particular enterprise has a choice of setting the price at one place or another and maintaining a series of sales at the price chosen. This is a significant phenomenon--it is not found in an individual-enterprise system where no one producer supplies a major part of the total market for any products and one which was never discussed or analyzed by the traditional economists.

The power of industry to administer prices raises two major problems: First, how much competition is necessary to keep prices in reasonable relation to costs and provide the spur to progress? Second, what is the effect of insensitive prices and of insensitive wage rates on the working of the economic system? The first of these, the declining competition and government regulation, has already been discussed by Dr. Hunter, and I will therefore confine myself to the second.

The traditional analysis of the working of our enterprise system concluded that automatic forces within the system would maintain reasonably full employment. It reached this conclusion because it was believed that prices would be highly sensitive to short-run changes in supply and demand, as are the prices of cotton and wheat; and that they would automatically maintain a sufficient demand to take off the market all the goods that could be economically produced. This automatic maintenance of full employment is something built into our traditional economics.

In practice, experience has shown that this does not happen. This bit of experience was driven home in the deep depression of the early thirties. Administered prices and wage rates were not sufficiently sensitive to maintain buying power. Either industrial prices must be made more sensitive or some other method must be employed to maintain buying if we are to maintain a reasonably high level of employment.

It is fairly generally agreed that to make prices and wage rates really sensitive would require the destruction of much, if not most, of corporate and factory enterprise. We would have to break enterprise up into relatively small units. That is a direction very few people will accept. It would mean the losing of the great productivity of our modern enterprise. If you try to win a war, you would want big corporate enterprise for its great efficiency and for its technical advantages. Even in peacetime the high standard of living that we have acquired in this country rests in large degree on that technical advantage of big-scale enterprise.

The alternative is to find some other way of maintaining buying. Here you have the controversy over the question of just why the failure in buying occurs. We have the Keynesian advocates who find the cause primarily in the savings-investment field. More recent analysis makes it clear, I think, that it lies in the inflexibility inherent in administered prices and wage rates, an insensitivity that we are going to want to live with.

It is only the short-run insensitivity that I speak of. It is not that administered prices don't change over one or two years and that, therefore, as progress in lowering costs takes place, prices do not gradually come down; but that from month to month, from a three-month period to a three-month period, they don't fully reflect changes in supply and demand conditions.

The leading thought--on this point I think the CED is one of the principal proponents--in the field of fiscal and monetary policy holds that it is possible to develop techniques that will give us relatively stable prices in peacetime and will maintain reasonably high employment. That is a whole field of study in itself, but I think very considerable progress has been made. Maybe we have that particular problem well on the way to being licked, although it would take another half generation to carry through the economic education that will lead to relatively easy handling of that problem. I think we know how to do it. We have not educated enough people as to how to do it so that it becomes an acceptable public policy, although on the "Hill" the tide of thinking has markedly changed.

I think the fact that we have not rushed into broad-scale price control at this time grows out of an increasing belief that such matters as balancing the budget, limiting bank credit, and so forth, can keep the inflationary pressures of the defense program from leading to seriously harmful inflation; not that we won't probably get some gradual inflation. I think we can regard an anti-inflation program successful if it keeps price increases to 5 percent a year, or something in that range.

I have sketched here the gradual shift from an individual-enterprise economy to one in which factory enterprise and corporate enterprise play a major role. I have shown how the major economic problems of today grow out of this shift and its effects. For example, the status of labor and the Marxian theory; the questions of the responsibility of business management (to whom should it be responsible?); the labor market, collective bargaining, and the whole problem of wage determination; the problem of competition and government regulation; the problem of full employment--all of these grow out of this shift from an individual-enterprise economy to a factory- and corporate-enterprise economy; also the failure of the technical economists and the philosophers in economics to keep up with this change and explain the new implications for policy that grow out of it. On almost none of these problems can we yet have a definitive answer.

You will often see it stated that the world is in a condition of revolution--in some areas violent and in some areas not violent. I think we can safely say that this revolution finds its base in the shift from individual enterprise to factory and corporate enterprise and the great increase of productivity that this shift makes possible. A revolution in a society takes place not when people of some group get their guns and begin to shoot it out, but when some marked change in basic thinking takes place. The nineteenth century and the first third of the twentieth century saw our basic thinking both in the economic and political fields built on the conception of an individual-enterprise system. Because the conclusions reached did not fit a factory and corporate enterprise system, we are in the throes of the revolution in thought which I expect ultimately to produce a new pattern of thinking that takes full account of factory and corporate enterprise and squares us away to a long period in which we have the answers to most of our major economic and political problems.

When the airplane was first introduced into fighting, there was a period in which you had to figure out the potentials of the airplane, and there were great arguments as to what it could and could not do. At first the introduction of the plane did not alter very much the characteristics of waging war; the strategy was essentially the same. You had new eyes that could go out over the enemy forces and be better observation posts than a man sitting on a hill, and you had other similar advantages, but they all tended to be simply an extension of what you already knew about how to wage war. But the plane presented new problems of strategy, forced a rethinking of the whole area of strategy and created new conceptions of how to wage war.

We are up against the same thing in the economic field, and, unfortunately, the technicians have not made as much progress as they should have by this time. To these problems we will see answers gradually developing. It may be another decade before we have most of these problems really under our belt. If we get into a major war, it will probably take longer because of the diversions.

Thank you.

QUESTION: Doctor, you link the inflexibility of wages with the pricing policies of the corporations particularly. I wonder if you would care to comment on the significance of the recent development in the GM contract, for instance, in which wage rates are linked with the cost-of-living index.

DR. MEANS: Yes. That is one of the outstanding developments of recent years in the labor-wage field. I won't now predict how it will work, but it seems to me a very great improvement.

That is a five-year contract which calls for wage adjustments as the cost of living goes up or down and for an annual increase in wage rates to take account of the expected progressive improvement in technology and greater productivity in our whole economy. That kind of policy, in the first place, seems to me eminently sound--if the wage rates at General Motors initially were right. If they were right to begin with, then the two factors that could be expected to make the wage rates get gradually out of line would be those two things that are taken account of in the new contract. And extending the adjustments over a five-year period greatly reduces, although it does not eliminate, the dangers of strike and strife.

I don't know whether that can be generally extended. It takes a strong corporation to adopt such a policy; it is spreading in the automobile industry. I hope it will spread elsewhere. It probably is not a complete panacea, but, from my point of view, it certainly is following a very enlightened policy.

QUESTION: I was wondering if there are not dangerous elements in the GM contract in that, with the floor on wages in that contract, the wages cannot be lowered in this period of inflation but can go up all the time.

DR. MEANS: There are dangerous elements, but I don't regard them as explosive. If we incur a major depression, we are going to have much more of an explosion then anything that is involved there. So that the small room for up-and-down movement is of secondary importance.

A nice question arises as to whether, in an inflationary situation, the escalator clause (pushing wage rates up with increases in living costs) may not be dangerous. It is my opinion that it is not dangerous, that it is wholly appropriate, and that the methods for dealing with what otherwise would be a serious problem are to be found in the fiscal and monetary policies whereby the buying power of individuals is kept at such levels that they will not be spending more than can be purchased.

It is a long story when you apply that to specific situations where we are getting an unbalanced relation between the demand for consumption goods and the demand for durable goods. After all, a large proportion of the defense program is going to be a demand for durable goods--tanks, planes, and what have you--and that is going to unbalance our total demand and present problems of price control. I expect we will have to have some price controls fairly soon in the field of the durable goods, but probably not for nondurables.

QUESTION: The escalator clause feature may be good from the standpoint of labor and certainly from that of management and ownership; but what becomes of the fixed-income group in this economy?

DR. MEANS: From the point of view of the fixed-income group, where there is no change in the cost of living and the rise in the wage rates of General Motors is due purely to the increased productivity of our system, that is something I would not worry about. It means there is no diminution in the standard of living of the fixed-income people. But when we come to the clause that brings about an increase in wage rates because prices go up, I would say that it is essential to the welfare of our whole economy that we do not allow major increases in cost of living to take place.

I spoke of the possibility of the rise of 5 percent a year in the cost of living as a condition that would not be too bad. If we could hold price increases to that level in the next three years, I would feel we had been doing a reasonably satisfactory job, although not a perfect one. It would not be wholly satisfactory because of these fixed-income groups primarily, and I think that is just one of the costs of a defense program.

COLONEL BARNES: To explore that a little further, do you justify that, Dr. Means, from the standpoint of the intentional objective of reducing purchasing power to relieve inflationary pressures to the extent of this 5 percent, instead of increasing wages to correspond to this 5-percent increase in prices?

DR. MEANS: I would say, let wages go up with the 5 percent.

COLONEL BARNES: Then you would be applying the injury to a select class of people--the salaried group.

DR. MEANS: It is not quite so simple and easy as that. In the first place, there are opportunities for some of the people in the salaried group to get into nonsalaried activity, where the 5-percent wage increase has taken place, and that is what we want to accomplish. We want to get more of the people into producing munitions--producing this, that, and the other--and taking the place of men who have been drawn into the military services. Second, there is constant pressure in the areas of fixed income to catch up with that increase. Finally, during a period of war, or during a period of defense, nobody gets perfect justice. You cannot run a war that way. If some civilians with fixed incomes fall behind at the rate of 5 percent a year while boys are getting killed out in Korea, do we have to worry too much about that 5 percent? Only if it causes serious unrest, thereby forcing us to deal with problems of unrest, does it become a problem. But I am convinced that a 5-percent increase would not create that kind of problem.

QUESTION: Our labor organizations have grown to a tremendous size. In your opinion, what would happen if they were to unite in one single organization? What effect would that merger have on our economy?

DR. MEANS: Let's say it this way: The effect will depend very much on how much education has gone on beforehand. If labor had united back in 1933, we probably would have had much more destructive action by a united and powerful labor organization than we would have today if labor got into a single union. The extent to which labor has become educated, along with business, government, and the rest of us, is tremendous. This country, in this revolution that I have been speaking of, has been educating itself at a very great rate, and that applies to the labor unions. If five years from now labor should get into one organization, it would not disturb me at all. I think that the powers they would use would be sometimes used badly, as everybody uses power badly, but on the whole they would probably be used constructively. Some of the internecine conflicts within labor would be reduced, thereby counterbalancing some increased harmful effects. Probably the total effect would be constructive and increase the responsibility of labor for the effect of its own action.

QUESTION: Doctor, in speaking of the impact on the fixed-income group of the 5-percent increase in the cost of living, you mentioned that the members of that group have the freedom to abandon their present grouping and go into the labor force, where they would draw wages. We had a little experience with that during the war when teachers left schools to work in factories, and I think that our educational system is probably only now recovering somewhat from the impact on it of that loss of teachers. That is only one of the effects of the movement of people from services which contribute to our general standard of living. What would be your comment on the general effect of such a movement out of the services in this country if people did try to take advantage of the 5-percent increase?

DR. MEANS: I would not expect that a very large proportion of the total would move out. There are a variety of reasons why the bulk of teachers will continue to be teachers. What I had in mind was that some people in what I think of somewhat as a fringe would have a chance to get out.

I cannot get very much worried about this 5 percent, as I have just indicated. That is minor. I get much more worried about the much more serious injustice that would develop in our system if prices rise much more than 5 percent a year.

I think we have a major problem on our hands of keeping inflation at or below the 5-percent level. In this first year of the defense program, beginning June-July 1950 and ending June-July 1951, the increased revenue from existing taxes, plus increased taxes, plus some minor reductions in nondefense expenditures in government will probably result in a balanced budget for the coming year. The next year we are much more likely to run into a deficit and create some real inflationary pressure that grows out of government spending and not simply the psychological reaction of consumers and business to the creation of a defense program.

DR. HUNTER: Dr. Means, you referred to this new type of thinking that is going on in the economic field. I presume, if I understand the origins and the work of the Committee for Economic Development, that the CED was created through a recognition of the problems that the economy faces. How widely represented in the whole business structure, among the business class as a whole, is the type of thinking reflected by the work of the CED?

DR. MEANS: "Growing" is what I would say to that.

I don't know how many of you know about the CED. Show hands. How many are reasonably familiar with its activity? /There was a show of hands./ Not very many.

Do you want me to describe its activity a little?

COLONEL BARNES: Yes, do.

DR. MEANS: You are all familiar with the National Association of Manufacturers (NAM) and with the United States Chamber of Commerce. The CED is a new organization that was formed back in the middle of the war by a group of progressive businessmen who felt that neither the NAM nor the Chamber of Commerce was presenting a sufficiently progressive program. These were businessmen who were beginning to feel this change and the necessity to think things through anew that I have already described.

The CED took as its first major problem preparation for easing the transition from war production to peacetime production. It organized two sections. One was a Field Development Section, which went out to practically every business in the country and asked three questions: "How many people did you employ before the war?" "How many people are you employing now?" "How many people will you employ one year after the termination of hostilities?" They could pull answers to the first two questions out of their records very easily. As to the third questic they really had to think through their whole postwar policy.

Having gotten the yeast working, the CED then recommended that all businessmen should set up someone to be responsible for planning the transition and their postwar policies. The CED recommended that, in the big companies, a vice-president be assigned this duty. In smaller companies, usually it was the owner-manager who took part of his time to do it.

The CED prepared a lot of analyses. Some of the best engineers in the country worked out the engineering problems of the transition. Book lets of a variety were gotten out.

When the CED compiled the figures that they finally got indicating how many people would be employed one year after the end of the war, the whole thing added up to about 8 or 9 million unemployed. That would not do. The CED said, "We must raise the sights of the businessman. How can we do that?"

The CED took a study that the National Resources Planning Board had worked out for estimating what the demand for different commodities would be at full employment. The CED determined how many pairs of shoes, how many new houses, how many automobiles, how much gasoline, and so on, would be demanded if we had full employment one year after the war was over. It went down the whole list of commodities and worked out for each significant industry in the country a bulletin which listed the amount of production that would be demanded at full employment. That was a revelation to business. I think something like 100,000 copies of this bulletin went out through voluntary requests.

Business began to recalculate what its plans should be, and we had this sort of process going on: The manager of Company "A" would say, "The CED people are cockeyed. What do they know about full employment? We can't possibly have this volume of demand for shoes." Then: "You know, gentlemen, they just might be right. I'm not going to say they are right, but if they should be right, I would want to expand my facilities." Then our people would go around and say, "Jones, who makes shoes up in the next valley, is getting ready to expand his plant if the estimated demand comes into being. You had better get on the band wagon or you will be left behind." So the manager of Company "A" brings in his engineers, works out the plans for a new extension to add 50 percent to his capacity, puts those plans in a pigeonhole, and says, "Ah, now, if CED proves to be right, I'm all set. I will just have to press a button and a program of expanding my plant will go right into effect."

That went on all over the country. I believe that 90 percent of the businesses employing eight people or more were visited by CED representatives. I am convinced, and many other people are convinced, that when the men were released from the military forces at the end of the war, the rapidity with which they were picked up and put to work was to an important extent the product of this field development activity of raising the sights of the individual businesses.

That was just an immediate postwar activity. The other section of CED, which still operates, said, "We want to organize to look at government policy and make recommendations to government as to what we think good economic policy is. The first set of studies had to do, again, with the transition. We made a very extensive study of the problem of terminating war contracts and made extensive recommendations on that subject. Our recommendations were in very large part adopted, and I think it was because we had them and had thought the thing through that they were adopted. I don't think it was fortuitous. And, as you know, the Government worked out systems for terminating war contracts that got money back into the hands of the businessmen that would allow them to set their money to work instead of having it tied up. That brought more equipment into their plants and got inventories out, so that they could go forward with postwar production, and so forth--again the sort of thing that helped the transition.

During the transition period we started a series of studies that dealt with the problem of how to maintain full employment. The CED has come through with conclusions and recommendations, mentioned earlier in my talk, that we think, over a period, will solve this major problem of high employment and of maintaining reasonable stability in a peacetime situation. We think we have a great deal to contribute as to how to prevent inflation and to finance the defense program; and if there were an actual war, I am sure we would buckle on our armor and try to produce some recommendations on how to finance a full-scale war. We are branching out into other lines of activity that I won't now go into.

This is a very outstanding, new thing in our society. In the first place, these are leading businessmen. We have Philip Reed, Chairman of the Board of the General Electric Company. We used to have Paul Hoffman at the head of our organization. I don't need to say who he is. We have a series of really important progressive businessmen. These men put a major amount of time on these economic problems. It takes about a year for us to produce the usual policy statement where we do a thorough job, and there will be any number of meetings at which leading businessmen will spend a great deal of time. The whole drive on their part is to provide a truly constructive policy.

Before I close, there is one thing I would like to say that, to me, is most significant in the CED. Unlike the traditional attitude of businessmen, the attitude of the CED is this: "What is good for the country is good for business." And they try to work out in their policy recommendations what they think is good for the country.

COLONEL BARNES: Doctor Means, we thank you very much for the exhaustive preparation you have put into this paper. It was exactly what we wanted to hear. We are greatly indebted to you.

(23 Oct 1950--650)S.