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September 28 Economics, by Professor F Joseph
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DISCUSSION
Professor F. Joseph Donohue, "Economics"
September 28, 1939

Q. I have a question. I don't know whether the Professor would care to elaborate upon it, but it is that you outlined the factors of the science of economics yet none of the factors seem to give a definite field to government, or a definite place in the picture other than to refer, as you did, to that exercise of freedom on certain limiting factors and the exercise of competition; yet it seems to me that government, as an expression, a collective expression of man, about whom the whole show revolves, should be given some place in the picture along with the other factors you named.

A. You mean how far I think government should exercise?

Q. No sir, but why do economists persist in leaving government out of the picture?

A. Probably because that is where they think the government ought to be, out of the picture. I couldn't be guilty of heresy by giving it any place in the picture because I am sure that ultimately it will occupy the place it thinks it ought to occupy, we hope it won't make that place too important else we will not have a system of private enterprise. That is what we lawyers call a demurrer, an excuse for not answering.

Q. Professor Donohue, as I see the picture, during peace time there is a particular form of government and during war time we set up forms to control it, there is an artificial set-up to endeavor to offset or restrict the natural zones of the law of economics. Would you discuss whether, in your opinion, ultimately the law of economics will develop

into the expected result. The point I am making is whether it will just retard those effects and they will later come or whether economic effects are bound to follow closely upon the operating causes.

- A. I don't think it is possible in a period of war to expect formal economic laws to adjust themselves to the terrific strain made upon them by the demand of a country at war no more than we could expect any individual to altogether retain his formal standard of conduct during a similar period. Economic laws operate over long periods of time. They reflect, it being a social science, the attitudes of countless thousands of individuals and in my judgment during the period of emergency such as war, the only possible way to minimize the effect of the failure of economic laws to adapt themselves rapidly to the changes that take place is by the highest degree of control recognizing, of course, the difficulties with which such a body exercising such a control would be faced, not only legal difficulties but economic difficulties, the difficulty of doing for a society what it just cannot do for itself. I don't want to be specific unless the question is made more specific. I frankly don't feel that economic laws ever, unless persons with respect to whom they operate improve, will adjust themselves to the strain of a war any more than they have been able successfully to adjust themselves to a period of depression. When the economic machine gets out of order I think it is just like an automobile. When the tire breaks down most of us who drive might be able to fix it, if some part of the intricate machinery breaks down that is the time to call for help. I think when the great economic structure breaks down we couldn't expect it to cure itself, that is the time we need control.

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Q. Professor, may I ask one general question on conditions as they exist today. Are movements, both in this country and others, such as the WPA, the CCC, the National Youth League, due to the present trend of the government toward state socialism, are they the results of permanent factors which ought to be controlled, or can you classify them as results of political expediency?

A. I don't think so; unquestionably the entire world is in a period of maladjustment. I think it is more than national, it is international. It is undoubtedly, in part at least, due to the inability of American manufacturing to support that part of its productivity which it was able successfully to support until more recent times. By more recent times I mean since the recent enactment of tariff barriers, both here and abroad, which have interfered with the normal support of that last 10, 15, or 20% of manufacturing enterprises, the successful marketing of which seems to play so important a part in the healthy condition of our entire economic structure, which in my judgment, is not due alone to artificial tariff barriers but I think in part is due also to the fact that for the first time in the history of the United States, we are faced with competition in our foreign markets which we never knew before, a good part of which is our own fault. I cite one illustration of that country which was Czechoslovakia. Shortly after the war there came to New England a man by the name of Bartlett, who went to a shoe trade school in one of the New England towns and learned how to manufacture a woman's cheap shoe that ordinarily would sell from three to five dollars. He went back to Czechoslovakia and took with him a skeleton crew of trained Americans; then he imported heavy shoe machinery from

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the United States and he conceived the smart idea that it was just as easy for a Czech to make American shoes in Czechoslovakia as it was for the same Czech to make the same American shoe with the same American machinery in Massachusetts, and he multiplied that by several thousand, the important difference being that his costs of production were much less there than they would be here in consequence of which he was able to make, not thousands, nor hundreds of thousands, but millions of pairs of shoes a year and export them to the United States for a sum less than the cost of producing that same shoe at the factory in the United States. That is one kind of competition we have never had to meet before.

I think another kind of competition arose from the fact that the United States for many years relied on the old assumption that we make the best without realizing that other countries were producing products which, frankly, were just as good, only cheaper, in consequence of which we lost too a part of our ability to export. That, I think, threw our entire productive machinery somewhat out of gear, and added to that was the depression of foreign currency which effected the ability to buy and sell. Our government, as we understand it, is a representative of the people in creating these WPA projects, National Youth Leagues, CCC camps, etc., and is doing for the people of the United States, what you would expect a truly democratic government to do. I think that is the reason for it. Of course, it has its political ranges, but I think they are secondary.