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HOW DEMOCRATIC INDUSTRIALISM OBTAINS A HIGH STANDARD OF LIVING FOR THE GREATEST MAJORITY

KEY TO ECONOMIC PROGRESS

D. G. KOUSOULAS

BALLANTINE BOOKS

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How industrialization can serve the world. . .

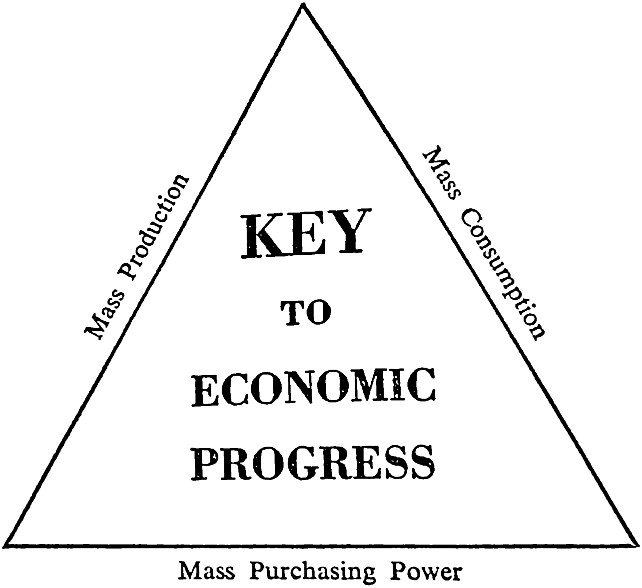
A book on economics necessarily undertakes to describe all the main features in the lives of those whose needs are served by the country in which they live.

The relationships of each of these features to the others must be explained. KEY TO ECONOMIC PROGRESS sets forth clearly and simply how mass purchasing power, mass production and mass consumption can be combined to bring a rising standard of living to the greatest majority.

The author gives the necessary factors of social and political life their proper weight—so that along with the more technical aspects of productivity, monetary and fiscal policies, the prerequisites for Democratic Industrialism are demonstrated.

D. G. KOUSOULAS

KEY TO ECONOMIC PROGRESS



BALLANTINE BOOKS • NEW YORK

Library of Congress Catalog Card No. 58–13578
Printed in the United States of America

BALLANTINE BOOKS, INC.
101 Fifth Avenue, New York 3, N.Y.

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ABOUT THE AUTHOR

Dimitrios G. Kousoulas came to the United States in 1951 under a Fulbright Scholarship to study at Syracuse University. He already had his Law degree from the University of Athens, Greece.

Born in Khalkis, Greece, on the Island of Eboea, he spent many years on another Greek island, Crete. In 1943, having had some trouble with the German Occupation Authorities, he went to the mainland. In December 1944, during the Communist revolution, he was arrested by the Communist guerrillas and escaped execution by a day only because a pact was signed between the British Commander General Scobie and the ELAS guerrillas. Later, during the Communist revolt of 1947-49, he served with the Greek Army in Macedonia.

In Syracuse University, he received his M.A. in Political Science in 1953. His thesis was published in the same year by Syracuse University Press under the title "The Price of Freedom, Greece in World Affairs 1939-1953." A Greek translation of this book appeared in 1955. Since April, 1955, he has been contributing a weekly analysis of world events, which appears in six Greek daily newspapers regularly.

In 1956, Mr. Kousoulas received the Degree of Doctor of Philosophy in International Relations from Syracuse University.

His familiarity with diverse economic institutions and practices in underdeveloped countries, in the United States, and in the Soviet Union, has provided Dr. Kousoulas with a unique background for the preparation of this unusual and absorbing book.

> ". . . The central fact of today's life is the existence in the world of two great philosophies of man and government. They are in a contest for the friendship, loyalty and support of the world's peoples."

With these words, President Eisenhower struck the heart of a dilemma mankind faces today. Indeed, one of the basic issues of our time is whether people can attain economic well-being without sacrificing their political and personal freedom on the altar of an omnipotent state. This is not an abstract question; the future of humanity may well depend on how people resolve it.

Since the beginning of civilized society, men who were able to wield political or economic power were in a position to lead and command. In our modern world, a totalitarian State fuses both the political and the economic functions into one monolithic structure controlled by a handful of individuals seated at the top of a single politico-economic pyramid. In a modern democracy, on the other hand, power, whether stemming from political or economic activities, is vested in a myriad of separate but interdependent political and economic units. As these units represent practically all segments of society, no privileged group or class is allowed to gain absolute control over the entire social structure.

One of the fundamental characteristics of a developed society is its industrial basis. In this sense, both the United States and the Soviet Union have one thing in common; they are industrial states. But at this point the similarity ends. While the industrial system in the Soviet Union is part of a monolithic politico-economic structure, in the United States it operates within a democratic framework. On the basis of these general features of the American democracy, one may use the term *democratic industrialism* to identify the set of principles which underlie the American economic system today.

* * *

To a world groping for answers, the experience of the American people, who have an industrial system operating within a democratic framework, is of practical significance. The phenomenal growth and achievements of the American system of democratic industrialism, in terms of individual living standards, are encouraging evidence that social justice and economic prosperity can best be attained in societies where the individual is free.

Many people tend to regard the progress of America as if it had occurred in a vacuum, ignoring in the process the factors which made progress possible: the political and economic system. Some people, though dedicated to monolithic state systems of economic development, find they cannot ignore the facts and arrive at the awkward position of acknowledging the American achievements but rejecting the system, and particularly the economic system of capitalism.

The term "capitalism," like so many other words in our time, has acquired too many meanings to be sufficiently descriptive. To many, it is a notorious word, almost automatically associated with a vast majority living in depressing poverty and a small minority in provocative wealth. I must confess that I too shared this misconception until I came to the United States seven years ago under a Fulbright Scholarship and observed capitalism in America.

From the first moment I was perplexed by the image of a capitalist country in which there was neither a majority of paupers nor a minority of all-powerful rich. For five years, I studied the inviting subject with insatiable curiosity. Eventually, I became convinced that here was a "capitalist" country which had somehow put to practice the theoretical demands and promises of the most progressive socialist thinkers, above all the quest for fair sharing of the national wealth. And I came to the conclusion that in the United States *the old style capitalism had given way to a new economic system based on different principles.*

What I had learned I felt should be brought to the attention of my countrymen in Greece who, like myself a few years ago, had a rather muddled and unrealistic conception of what makes America great. I presented my observations on the present day American economic system in a series of fifteen articles, which were published in six Greek newspapers and a political review as part of my regular column on the American scene and the world at large entitled "Letters from Washington." The favorable reaction in Greece to these articles has encouraged me to undertake this book, written in English so that more people around the world could read it.

* * *

The American system, of course, is not a utopian panacea which can remedy all the world's social and economic ills with despatch. There is, in fact, no fixed blueprint by which it has developed. Rather, there is a set of flexible economic principles developed through trial and error over the years, within a framework of democracy. Most significantly, they are principles which in the crucible of actual experience evidence the fallacies and errors of the Marxist theories about economic development.

In a world which is in constant transition and development, rigidity and dogmatism impede progress and handicap the solution of problems. Because the American principles are flexible, nations with widely diverse backgrounds may find them helpful guideposts on their own roads away from misery and stagnation and toward a better and more rewarding future.

My only hope in setting forth these principles is to help dispel, in however small a measure, the confusion and often calculated distortion which prevent people from charting a clearer course in the jungle of today's conflicting ideologies. As the saying goes, "it is better to light a small candle than curse the darkness."

D. G. K.

PART ONE

I—IS THE AMERICAN ECONOMIC SYSTEM REALLY DIFFERENT?

Few Americans would claim their economic system has reached perfection. Like all products of human experience, it has flaws and weaknesses. Furthermore, it is in a state of constant development; new problems and new needs continuously arise.

An uncompromising perfectionist will find many faults to criticize. But this is neither a constructive nor a realistic approach. What is important is to understand the dynamics of the American economic system which explain its achievement; for the fact is that Americans have achieved the highest standard of living on earth without sacrificing personal and political freedom. With less than seven percent of the world's land area and population, America produces nearly fifty percent of the world's manufactured goods and well over thirty-five percent of the world's goods and services; and although their workweek has been constantly reduced, the great majority of Americans today have better food, better clothing, better housing facilities, better education, and more varied recreation than ever before.

America's sources of economic strength.

The phenomenal production of the American economy is often taken for granted by both Americans and foreigners. Explanations advanced for it are varied, some partly accurate, others absurd. People often credit geography and natural resources as the sole cause. America, they say, is a rich country, blessed with fertile fields, broad forests, and rich deposits of coal, oil, iron, copper and uranium. The great rivers which crisscross the land are suitable for navigation, for hydro-electric power, and for irrigation purposes. The climate is, on the whole, temperate.

Some will also say that America enjoys the great advantage of a vast market of 170 million consumers. Products of American industry and agriculture can move freely from coast to coast, with no artificial barriers to increase their cost or curb their circulation. A soap manufacturer, for instance, can count on selling millions of cakes of soap every week from Maine to Florida and from New York to California. Thus, by producing millions of cakes of soap he can reduce his production costs and sell his soap at prices everyone can afford.

The foregoing views, in the author's opinion, fall short of a full explanation. Although the United States undeniably has great natural resources, it is not the only country with such riches. Nor is the United States self-sufficient in many important raw materials; its vast productive machine has to import from other lands considerable quantities of raw materials such as lead, tin, copper, manganese ore, nickel, tungsten, zinc and rubber.

Is a vast population a satisfactory explanation for America's prosperity? There are countries with large populations and great potential for development which constantly complain they suffer from over-population. Indeed, if expanding population were the major factor in creating prosperity, countries like China or India would automatically enjoy a high standard of living. The elementary economic truth is that an expanding population is not always a factor for progress and prosperity. For if production does not increase faster than population, the standard of living will fall, not rise.

There is another condition which we shall explore more thoroughly at a later point; namely, that for population to become a factor in economic progress the people must participate fully in the economic life. In other words, it is not enough to have many millions of people merely living within an economy. The decisive factor is how many people participate fully as producers and, even more important, as consumers.

In brief, natural resources, and growing population—by themselves—cannot guarantee prosperity and progress. These factors may be compared to reactants in a chemical process. The reactants are inactive until a catalyst is added to transform them into a new compound. In the American case, the catalyst which activates the various factors and transforms them into prosperity for all is the system—the political and economic system of democratic industrialism.

The major innovation of the American economic system.

We often hear that the American economic system is something different, something unique in the experience of mankind. There is little doubt that many of its features are unique and deserve our fullest attention; a major part of this book will be devoted to them. Some are like the visible parts of an iceberg, which loom white above the surface of the sea. But to comprehend the uniqueness of the American economic system we must see all its principles, including the four-fifths beneath the surface.

Marx stressed that "capitalist" production was based on the economic "law" that labor was a *commodity* and, like any other commodity had a certain *value*. He defined the value of labor as the sum of a heap of commodities (goods and services) necessary for the survival and reproduction of the "working class." According to Marx, the "capitalist" would never pay laborers more than their "labor values," no matter how much production might increase through technological innovation and higher productivity. From this theoretical nucleus most Marxist theory followed, including of course the pet theme of "capitalist exploitation of the workers."

Marx took as his model of the capitalist system the conditions he could observe during his own time. Consequently, he erred in part when defining the "value of labor." In his lifetime, labor *was* considered a commodity. Indeed, in some parts of the world labor is still considered and compensated *only* as a commodity. In the United States, however, a new element of far reaching significance has been introduced. Labor—i.e. every American working for a living—is no longer merely a "commodity" with a certain value; working people are also viewed as potential *consumers*. On the basis of this revolutionary approach many measures have been adopted with one major objective: to preserve and expand the *purchasing power* of the average American.

Individual compensation, of course, is automatically scaled to the economic importance of a person's work. Since individuals differ widely in ability, energy, training, and initiative, rewards vary under any economic system. But the basic point is this: under the American economic system, the labor force—all working Americans—is, in the aggregate, compensated in a way that tends not merely to assure its survival and reproduction but also to preserve and expand its purchasing power. For in a free economy based on mass production, the preservation of the purchasing power of the people is vital.

Old-style capitalist production was, and in some countries still is, geared to the satisfaction of a select, elite consumer market. The exploitation of labor was a very real possibility. But when laborer and consumer were combined in one and the same person—when the laborer-consumer became an acknowledged entity—basic principles of the old capitalist system underwent radical changes. The "Capitalist" could no longer exploit the laborer because the laborer was also a potential consumer. The theory of the "exploitation of the worker" does not apply in a private enterprise economy where working people are also viewed as potential consumers.

This identification of the "laborer-consumer" is a basic innovation of the American system. How deeply this concept has changed American economic thinking is shown by the reaction of the labor unions to the revolutionary process of automation.

Automation is already a reality in American industry. In this advanced form of production, the worker is replaced by automatic control devices. In other words, automatic controls operate complex machinery and whole factories without direct participation by workers except as supervisory technicians at key points in the process. Automation is not limited to manufacturing plants; so-called "electronic brains" are taking over the tasks of office clerks, accountants, and other white-collar workers.

As a result of automation, fewer workers are needed to achieve the same or even greater production goals. Under the old capitalist system, workers whose services were no longer needed obviously possessed no "value" as far as the employer was concerned. This is true, if labor is viewed only as a commodity. But now labor is also the consumer who makes mass production economically profitable. Automatic control devices cannot buy the cars, the appliances, the clothes, or the food. Thus, vast unemployment is incompatible with mass production.

Obviously, government, business, and labor unions have a common interest in preserving the purchasing power of the laborer-consumer. For this reason, men like Walter P. Reuther, Vice President of the American Federation of

Labor-Congress of Industrial Organizations do not dread the advent of automation; instead, they welcome it. As Mr. Reuther has pointed out:

". . . Science and technology have at last given us the tools of economic abundance, and we are no longer confronted with the need to struggle to divide up scarcity . . . We are confident that we will not have to fight the new machines and devices. Rather, we will use them to bring health and happiness, security and leisure, and peace and freedom to mankind everywhere." (Testimony before the U. S. Congressional Subcommittee on Economic Stability; October 17, 1955).

This confidence is not irresponsible optimism or empty prose. It is based on the knowledge that automation need not lead to vast unemployment. On the contrary, it is economically more realistic to expect that, in sustaining the purchasing power of the laborer-consumer, industry will gain time to develop new products and new jobs. Problems, of course, will be numerous. It will take foresight and ingenuity to cope with the difficulties affecting individuals and even whole communities. But, to use the words of Mr. Reuther, "if vast social dislocations are prevented this time, it will be only because the combined wisdom of private groups and government will be used to prevent them." In preventing social dislocation and solving the problems associated with the revolutionary process of automation, the guide will be the principle that *in order to maintain mass production there must be mass consumption which in turn depends on sustained mass purchasing power.* In the American economic sysem, a high standard of living for the average citizen is not only a matter of humanitarian benevolence but an economic necessity.

II—SOME BASIC FEATURES OF THE AMERICAN ECONOMY

From the fundamental principle that *mass production calls for mass consumption which in turn depends upon mass purchasing power* a number of interesting features of the American economic system stem. These features characterize an economic system which does not fit at all the image of "Capitalism" people in many lands have in mind when they speak of "monopolies," "exploitation," or "class struggle."

Mass production with a small profit per unit.

The pursuit of profit remains a main objective of private enterprise. However, far from measuring exploitation of the "working class," profits play an extremely vital economic role. In addition to providing a reasonable return for the investor, profits are *a major source of capital* for the renovation and expansion of productive wealth. In 1955, for example, the American economy grossed $391.7 billion. During the same year, net corporate profits, after taxes, amounted to $21 billion. Of this amount, approximately $11 billion reached millions of individual investors in the form of dividends and interest. The remaining $10 billion was used for renovation, expansion, and research.

Twenty-one billion dollars is, undeniably, a large sum of money. Note, however, that it was not the result of a large profit per unit, but of a tremendous volume of sales made possible by an existing mass consumer market. A striking feature of the American economy is the small profit per unit realized by most private concerns. One penny profit on each of many millions of cakes of soap amounts to millions of dollars each year.

If the selling price of a product is inflated excessively to assure a larger profit per unit, the consumer public may be unable or unwilling to purchase it. For this reason, the American enterpreneur does not try for a large profit per unit. He aims to reduce costs through better methods of production, and *to combine mass production with mass sales and a small profit per unit.* In the last twenty years, the average net profit retained by United States enterprises has not exceeded more than five percent of total sales.

Mass purchasing power.

Mass production with a small profit per unit is a distinguishing feature of the American economy. But mass production cannot be sustained unless people are financially able to absorb it. After all, production has no *raison d'être* unless it serves human needs. Consequently, mass production depends on mass purchasing power, that is, on a relationship between wages and prices enabling the greatest number of people to afford the largest volume and variety of products.

In a mass production economy, if prices rise "too much" or wages remain "too low" in relation to given production, the economy will be in trouble. Through free interplay of business, labor unions, and government, a fine balance is kept so that a mass consumer market is sustained.

The two dimensions of a mass consumer market.

For a consumer market to be both stable and a factor for progress, it must have two dimensions. One is horizontal: it must stretch from one end of the country to the other. The other is vertical: all strata of the population must have the financial ability to participate in the economic cycle as consumers. This means that in order to maintain a mass consumer market goods cannot remain in short supply for very long. "Luxury" items must quickly be made into "items of wide consumption." To this end, the American economy relies on research and constant effort to find more efficient, less expensive methods to produce all goods.

Forms of competition.

In a fully monopolistic economy such as that of the Soviet Union, the consumer has no choice. He must content himself with the products of monopolistic state enterprises. On the other hand, the enterprise, sure of a captive consumer public, has no compelling economic reason to concern itself seriously with what the consumer might like to have.

The opposite is true in a free enterprise economy. As we shall see later, there are at least three different forms of competition in the American economy. One is the "direct" competition among enterprises producing the same kind of goods. Another is the "indirect" competition among enterprises furnishing commodities or services of a similar kind, e.g. various types of transport, such as buses, trucks, airplanes, railways, river-barges; or fuels, like oil, gas, coal, and electricity. Finally, there is another form of competition, or rather an interplay of counter-balancing forces: retailers vs. manufacturers, producers of finished goods vs. producers of basic materials, labor unions vs. employers, consumers vs. producers, and all facing a diffuse yet powerful public opinion.

Constant search for new products and methods.

A competitive economy has little room for complacency and self-satisfaction. If a rival develops a "better mouse-trap"—a better product—your position in the market will be weakened. It is essential, therefore, for the businessman to keep constantly alert. To accept dogma instead of thinking, to maintain "this is the way we have been doing things all along," to cling stubbornly to old attitudes and obsolete practices is almost suicidal for private enterprise in a free economy. To paraphrase the slogan of the General Electric Co., "Progress is the most important product of a free economy." To assure progress, American business has to work round the clock to develop new and better products. Constant search for the new, the more efficient, the more useful, or the more attractive is no longer the lonely effort of an often misunderstood inventor, but a conscious process carried on by business as one of its most important functions. In 1957 alone American corporations spent six billion dollars for research and development.

Business and education.

Scientific research has today become a major task of American private enterprise. The scientist, the educator, the specialist, is no longer a stranger to the business world. Nor is the modern businessman the uncouth person often portrayed by fanciful cartoonists. More often than not, he holds a college degree, and it is now quite common to find engineers, scientists and educators on the top levels of important business corporations The interdependence of business and education is another striking feature of the American economy.

Productivity and human relations.

Business is influenced by the scientific world in another important sector, the sector of human relations. Employees are no longer regarded as mere "hands"; they are considered individuals entitled to respect. The psychologist has become an indispensable staff member of many corporations. The result is a healthier relationship between management and workers.

This is not intended merely to win good-will for management. This healthier relationship is actually a prerequisite for higher productivity. In a free mass production economy, good human relations are an integral part of the scientific methods used to assure economic progress.

The search for talented men.

In the competitive American economy, talent is highly valued. Since talent is not necessarily passed on from father to son the old type of family business has gradually given way to the modern corporation.

In this type of business organization, a new professional is coming to the fore: the business executive. His origins as an individual, his family background and similar considerations are not of prime importance. Talent for administration, intelligence, education, ability—these are the qualifications that count. The penniless immigrant or the son of a miner can reach the top and become chairman of a giant corporation like U. S. Steel or Twentieth Century Fox—as Benjamin Fairless or Spyros Skouras has done.

The son of a high executive has a better chance to follow his father's footsteps if he can prove equal to the demands of leadership and responsibility. However, in a competitive economy, an enterprise can hardly afford to be burdened with dead weight for too long.

A modern way of thinking for the industrialist.

These new professional men—the business executives—

are not uniform, standardized business wizards. They are human beings with the strengths and limits of other men everywhere. Their motivations vary just as much as their personal tastes and backgrounds. They seem, however, to have one thing in common: a realistic attitude toward the social function of business. The day of the industrialist whose thinking began and ended with the word "profit" is past.

The complexity of modern business and its influence on all aspects of society demand that the business executive of today be concerned not only with profits, markets and production curves, but also with the larger social structure of which business is a part. Modern business executives must be primarily interested in sustained prosperity—not in quick, irresponsible profit-making. Thanks to a broad liberal education and a better understanding of the basic principles of the system, more and more business executives are becoming the creative, socially-responsible men needed to conduct affairs at the top level of American industry.

The important role of advertising.

The social and economic significance of advertising in the United States today can hardly be overemphasized. Though it often comes under sharp criticism for alleged misdeeds, the advertising industry plays a leading role in America's progress. A mass production economy requires a wide audience, and it is up to the advertising industry to deliver this audience.

Advertising in the competitive American economy must be credited not only with promoting products which the public already "wants," but also with *creating a desire* for new products which otherwise might never find enough purchasers. Futhermore, advertising, directed as it is toward a broad public, tends to level social distinctions and make the amenities of life not only desirable but also something that the average American may consider within reach. Advertising may sometimes be charged with vulgarity, bad taste, over-aggressiveness or what not; nevertheless, it is a leading factor in sustaining the American mass consumer market.

Labor unions in a free economy.

In addition to private enterprise and a vigilant government, the system depends for its smooth functioning on the existence of free and strong labor unions. By their constant pressure for more benefits to the workers, unions have been instrumental in the development and preservation of a mass consumer market.

American labor unions in the twentieth century, in large part because of the influence of Samuel Gompers, a longtime president of the AFL, accept the basic tenets of the free enterprise system and concentrate their efforts on gaining a larger share of the nation's income for their members. The American worker's high standard of living proves their wisdom in having chosen this path.

Labor leaders best serve the long-term interests of wage-earners if they live up to their responsibility to the nation as a whole and view labor as part of an over-all social structure. More and more labor leaders are proving equal to the task.

The American government as a balancing factor.

The federal government is another factor of prime importance in the economy. Though there may be differences of opinion over the proper extent of its role, there is no serious disagreement as to the existence of such governmental responsibilities.

In an economy based on private enterprise, economic stability depends upon balancing the nation's production with its ability to consume and save. This balance is not rigid and can fluctuate freely within broad limits of safety. A major function of the American government is to make sure that the economy stays within these limits, thus preventing violent swings from boom to bust, from prosperity to depression. It must be emphasized that the federal government does not impose rigidity. It does not predetermine what the people *should* need or what they *should* like or what they *should* have. Strict control and regulation is a primitive method of achieving economic stability. The American government relies on more adult means.

To carry out its responsibilities, the government has a number of financial and monetary devices, as well as reliable scientific methods of forecast and evaluation. Taxation, government spending, social legislation, to name but a few, are among the indispensable tools used by the American government in its constant effort to maintain *relative* stability.

* * *

The foregoing principles and features of the American economic system are not dogmatic laws which, observed faithfully, will solve all problems. They are general concepts, to be applied in practice as circumstances dictate. Indeed, even in America some are developing features, trends in the making, and not firmly characteristic of the system. Nor are the principles discussed exclusive; another observer may detect other movements at work; still others might re-organize the classification into more or fewer categories. But for the purpose of this book the foregoing is a general outline of democratic industrialism as it has developed in the United States of America. In the chapters that follow, we shall examine this outline in much greater detail.

PART TWO

III—SPEAKING OF PROFITS

One often hears the propaganda cliche that "American monopolies, controlled by a handful of financial magnates, realize colossal profits and rob the workers of the fruits of their labor." Propagandistic or not, the accusation warrants close scrutiny.

Do large profits mean exploitation?

In any economic system, production has this primary purpose: to satisfy the needs of the consumer. This principle is economically meaningful only when we answer an essential question: who is the consumer?

In a small-scale capitalist economy supplying a relatively limited group of consumers, the producer can charge an exorbitant price which his select group of customers can afford; hold the compensation of his workers at a subsistence level; and reap a large profit per unit. This is classic old-style capitalism at its worst. In such an economy, the exploitation of the worker is a very real possibility.

The old-style capitalist could exploit his workers because he could readily distinguish between workers and customers. They were seldom the same people. The workers' inability to buy their products had little effect on the employer's income. He would charge customers high prices for his goods and yet pay bare subsistence wages to the men who made the goods.

This is economically impossible in a free mass production economy. Why? Because, as was pointed out earlier, in such an economy the distinction between "laborer" and "consumer" ceases to exist. By laborers, of course, we do not mean only the workers. All human effort, for economic purposes, *is* labor. The highly skilled worker, the technician, the executive, the professional, the scientist, the office employee, every person working for a living must be considered a member of the labor force of the nation. Most adult Americans—more than 65 million of them—work for a living. These same Americans, together with their families, form the mass of consumers. Thus, in America today "consumers" are the *vast majority of the people.* As a result, in the American economy the laborer-consumer has become an entity; the producer cannot "rob" the laborer because the latter is also the customer. If the working people are deprived of the financial ability to buy products and services, the first to suffer will be enterprises whose products will find no customers.

The widespread notion that large *over-all* profits must mean exploitation of the workers or consumers—that because over-all profits appear large, wages must necessarily be lower or prices higher than they should be—is a fallacy responsible for much of the existing misunderstanding of the American system. Closer study reveals that there is no fund of fixed size out of which wages and profits must come. Well-managed, efficient industry can pay high wages, establish low prices, and earn large over-all profits, all at the same time.

The same is true of the economy as a whole. The profits of American industry have expanded in proportion to the standard of living of the American people; profits multiplied, but real personal incomes rose faster than price levels. At the same time, while total profits expanded, profit per unit of product decreased. All this was characteristic of, and the result of, the growth of a mass consumer market.

Profits as a source of capital.

In order to meet the needs of an expanding population and raise the general standard of living, it is necessary steadily to increase the production of goods and services. There are two practical means to accomplish this objective. One is to enlarge the productive facilities of the economy; the other is to increase the output of each worker by introducing better machinery and more efficient methods of production. The best results can be expected when the expansion of productive facilities is combined with an increase in worker productivity. The tremendous production of the American economy and the high standard of living of the American people are the result of a steady, conscious effort to combine expanding productive capacity with higher individual productivity.

We all know that the expansion of a private concern depends on the investment of additional capital. This is also true for the over-all economy of a nation. Investment is, in effect, the foundation of material progress.

Fundamentally, capital is formed when part of what is produced is not consumed. In an economy of *monolithic industrialism* consumption can be curbed by decision of the political elite which controls the state. In a free economy, however, consumption is kept within limits largely by voluntary individual action.

In a modern economy of private enterprise there are actually three main sources of capital; individual savings, credit created by the commercial banks, and profits.

In 1955, the American business community as a whole spent $28 billion for renovation and expansion; in 1956, the outlay for new plants and productive facilities reached $35 billion, with an additional $9 billion spent for new office buildings, furnishings, recreational facilities for the employees, and the like.

Without the realization of profit, all expansion would have to be financed either from borrowed funds or through increased private investment. Enterprises, however, would be unable to repay the funds they borrowed unless they realized profits in the future; and new investments would be hard to attract unless there was expectation of a reasonable return in the form of dividends. Profit, that is, the expectation of profit, plays a vital *indirect* role in drawing expansion capital to private enterprise.

However, profit also has a direct capital function, as a major source of growth funds. Indeed, profits "plowed back" into companies are the most reliable factor for American economic expansion. Statistical studies indicate that between 1947 and 1955 profits were the very backbone of growth; the retained and "plowed back" profits of corporations provided more than half the funds used for new machinery, plant construction and research in those years.

Other functions of profit.

The American businessman of today is interested in a *large volume of profits* resulting from a *large volume of sales.* He is not after high profits per unit; he prefers, instead, a small profit per unit with large sales over a long period of operation in a climate of economic stability. This is not a matter of benevolence; it is an economic necessity. To sustain relative stability in a competitive mass production economy, business cannot increase profits excessively by cutting wages or raising prices, as the old-style capitalist could—and in some countries still does.

Of course, an individual entrepreneur or the management of a single company may disregard the economic facts. If, however, he tries to expand profits by increasing prices excessively, he may well price his product out of the market and his business out of existence. On the other hand, labor unions, always trying to win a greater share of the national product for their members, will certainly resist any attempt to lower wages as a means to greater business profits.

In developing profit as an important source of capital, the corporation has played a major role. The managers of a corporation are primarily concerned with the healthy long-run development of the corporation. They are inclined to use as large a part of net profits as they deem necessary for expansion of the enterprise, although many stockholders—the actual owners of a corporation—might prefer larger dividends. By retaining a large part of net profits for investment, corporations have become another important factor in the process of diverting funds from consumption to investment.

The yardstick of profit and loss plays another important role: it is a means of measuring quality of management and degree of efficiency in the operations of a private enterprise. It leads to the use of highly qualified men in management. At the same time, it shows whether the factors of production—natural resources, labor and capital—are being used efficiently. A company which shows no profit must re-examine its structure and policies to find out whether it is selling its products below costs; whether its prices are "too high" and deter consumers; whether its methods of production and distribution are inefficient. The profit-and-loss concept is the safety valve which keeps the machinery of private enterprise efficient and assures economic progress. Without it, the whole society would suffer, in the long run, from increased costs and waste.

Nor has profit lost its traditional role as incentive for investment and as compensation for the risks assumed by investors in new business or in renovation of old ones.

The expectation of dividends or interest is an inducement to people to invest their savings voluntarily in the productive enterprises of the nation, rather than to devote their entire income to consumer purchases.

How big is the investor's reward? It usually depends upon the extent of the risk involved. A person investing in an uncertain financial venture may realize considerable gain, but may as easily lose his entire investment. On the average, however, the ordinary investor may expect from 3 to 8 percent, depending on the type of investment and the degree of risk involved.

Let us compare the average earnings of an investor to the wages of a skilled worker making $5,000 a year. An investor, in order to make $5,000 a year, must furnish more than $100,000 of "capital." However, if the investor has parted with his savings in exchange for stocks, he is not sure of $5,000 or anything at all at the end of the year. One-half to one-third of all American corporations do not regularly distribute dividends. Obviously, the return to the average investor is neither outrageous nor excessive.

As a matter of fact, it would appear that in the American economic system it is "labor" which enjoys rather preferential treatment. But, after all, "labor" *is* the majority of the people—the consumers. And, at the same time, several million members of the labor force are also investors. Almost nine million families own corporation stocks and bonds, while many more millions are indirect investors through savings accounts, insurance policies, etc. Still, the major part of their income—and, consequently, their ability to consume—depends on their labor. This is why a person receives a relatively larger compensation as a "laborer" than as an investor. In an economy of mass production operating under the principles of democratic industrialism, the *laborer-consumer* becomes the central figure.

Increased productivity is the major reason for America's rising standard of living. In 1929, 45 million Americans worked about 116 billion hours. In 1954, 60 million worked 130 billion hours, only 16 percent more. Yet they produced twice as much as in 1929. Technological advances have contributed immeasurably to this increase, advances which result from unceasing efforts to expand America's store of knowledge, equipment, and methods.

Mass Production a foe of culture?

The concept of mass production is not always popular. Some people fear mass production entails a new kind of "cultural barbarism." They argue that the craftsmanship and pride of work of older artisans will be submerged in a sea of automatic, standardized movements of machines. Mass production goods, they claim, lack individuality, and the people who make and use them also tend to become very much alike.

As with most such sweeping generalities, these contain an element of truth and a great deal of exaggeration. True, the individual craftsman has largely disappeared from the American scene, being replaced by the skilled worker and the technician. But the worker is no longer the slave of the machine as he was in the early days of industrialization. Thanks to a new science called human engineering, a constant effort is made in the United States to adjust machines to the needs of the human beings who operate them. Factories redesign machinery to eliminate awkward controls and modify work-routines which require too much stooping, bending or carrying. As for uniformity of products, most American enterprises achieve some degree of individuality in articles where individuality counts most. Certainly no American woman can complain that women's clothes are depressingly uniform.

Aside from these considerations, critics of mass production seem to overlook its main effect. They forget that masterpieces of old, which we admire today in museums or stately mansions, do not present a true picture of the past. Possession of those articles we consider today to be products of a high culture was restricted to a small privileged minority. A silver cup designed by Benvenuto Cellini is undoubtedly a masterpiece; but it was created for a king or a prince, not for ordinary people. For a long time, culture was a "luxury item," reserved for the privileged few.

Before the advent of mass production, people did differ; an aristocrat or a wealthy merchant lived in a different world from the "lower classes." Less than a century ago—and in some countries even today—a visitor from another planet would have had no difficulty in distinguishing between an aristocrat and an innkeeper, because of their sharp differences in action and dress.

Mass production has changed this in the United States. By making most products available to most people, it has led to considerable elevation of the *general* cultural level, and has toned down marked differences. Go to an American church on a Sunday morning. If you expect to learn who is a wealthy businessman and who is a worker, who is the mayor's wife and who is the janitor's daughter by the way they dress and behave, you will have a rather difficult time.

A basic objective of Americans is that the greatest majority of the people should be able to afford the widest variety of products and services. American industry constantly strives to transform as many of today's "luxury items" as possible into "items of wide consumption."

This does not mean, of course, that Americans expect to eliminate "luxury items" altogether. One of the many manifestations of progress is the development of new products. Inevitably, every such new product is in short supply at the beginning, until methods for its mass production are devised. By the time this is accomplished new products are created and the process starts over again. Unless we put a ceiling on progress and ban new products there can never be a time when there will be no "luxury items." In spite of certain promises, the day when "everyone will have according to his needs" seems rather remote, if by this we mean everyone is to have all he "needs" of even luxury goods.

At the same time, technology and increased productivity may reduce the lag between development of a new product and its mass production and distribution. American free enterprise has constantly reduced the time-gap between stages of production.

"High wages and low prices."

The relationship of prices to wages and salaries is important in sustaining a mass consumer market. It is quite natural for the consumer to favor "low prices"; he can then buy more products with his money. On the other hand, the producer naturally favors "high prices and low wages"; in this way he can realize the highest possible profit per unit. This is basic thinking under the old capitalist system. But democratic industrialism and mass production have introduced new economic thinking. In view of the close relationship between mass production and mass consumption, it is clear that the long-range interest of the producer lies not in quick and high profits per unit but on a sustained mass consumer market. This market obviously depends on wages and prices which permit the largest number of people to afford the widest variety of products. Thus "high wages and low prices" are not only in the interest of the consumer but also of the producer.

Of course, the phrase "high wages and low prices" is not very precise. What really counts is the relationship between prices and wages, not their actual level at a given time.

Yet, if there is a broad community of interest between "laborer-consumer" and "producer"—the reader may interject— why are there labor disputes in the United States? One should not lightly dismiss human weaknesses, which often take precedence over sound economic thinking. Still, disputes may arise from an honest difference of opinion over a very important factor: productivity. Without an increase in productivity an increase in wages will create inflationary pressures. But productivity cannot be measured accurately in all types of work. Until more precise measures of productiviy are developed, labor-management disputes are bound to come up. However, U. S. labor-management disputes have lost much of the extreme bitterness of earlier days. More often than not, they are resolved at the conference table through collective bargaining. Estimates prepared by the U. S. Bureau of Labor Statistics show that in 1947, for example, 24 out of every 25 new labor-management contracts were negotiated peacefully. Between 1947 and 1952, the average loss of time from strikes was less than ½ of 1 percent of the total man-days worked. And in 1954 the time lost because of work stoppages was only 0.2 percent of total man-days worked.

Quite often negotiations are protracted and arguments become heated; but, as a rule, a compromise solution is reached. One may cite as examples the agreement giving the automobile workers a "guaranteed annual wage," or the recent increase of $2.50 per day for miners. (See Chapter X). The key factor in the constant readjustment of prices and wages is productivity.

How does productivity increase?

Productivity in the United States has increased regularly on an average of 2 percent yearly during the last fifty years. Productivity, of course, does not increase automatically nor does it come about by natural law. On the contrary, the increase in productivity of American industry and agriculture has been the result of practical incentives and imaginative techniques.

The motive of profit, for one, makes increasing productivity a *must* in an economy of competitive private enterprise. The sound way to increase profits is to cut the cost of production per unit and expand the margin of profit by increasing productivity; i.e. by using both capital and labor more efficiently. This is what American industry and agriculture have done with remarkable vigor.

To this end, American enterprises have relied heavily on scientific research and have introduced, with the least possible delay, innovations able to increase productivity. A recent study of American economic development (*America's Needs and Resources: A New Survey,* by J. Frederic Dewhurst and associates) points out that the net output of goods and services in 1950 was twenty-five times what it was in 1850, while the working force increased only eight times. Allowing for the shorter workweek of 1950, the American economy, with less than five times as large an actual input of human energy, achieved an over-all production twenty-five times as large as that of 1850. In other words, U. S. labor productivity in the last hundred years has multiplied more than five times. It would have taken a worker three weeks at 70 hours per week in 1850 to produce as much as an average worker turns out today in a single 40-hour week. If the present rate of productivity increase continues, in another hundred years the American economy will produce as much in one 7-hour day as it now produces in a 40-hour week.

How did this great increase in productivity per worker come about? Certainly it did not result from the ability of the average man to produce more with his muscle power. Productivity is only to a limited degree either the result or the measure of labor efficiency. The competence of management, the skill of the individual worker or the diligence of the farmer have been secondary factors in the sharply ascending productivity curve over the past several decades. The most energetic and skillful shoemaker, working long hours under the ablest supervision but with the handtools of a century ago could not approach the output of today's semi-skilled operator, who works fewer hours but with power-driven machinery. The fabulous increase in U. S. productivity has been achieved not because Americans now work harder or more skillfully; it has been the result of constant effort to devise and use better techniques and more and better machinery. America has multiplied the output of human effort through vast inanimate energy.

Nevertheless, skill, effort, and the cooperation of the individual in the process of production continue to be of great importance. Their lack can destroy or at least decrease the efficiency of good machinery, planned factory organization, and ample power. Recognizing this, American business management has given particular attention to the human factor in production. Management psychologists have shown that the morale of the worker is vitally important in increasing productivity.

Industrial psychology is a new branch of science which deals with the human factor in production. It began, practically speaking, only three decades ago, almost by accident. One corporation, the Western Electric Co., wanted to determine to what extent production would increase if lighting were improved in a department where girls assembled telephone equipment. To everyone's surprise, including the psychologists, it was found that merely experimenting with the lighting brought greater production —regardless of whether light was increased or decreased. Production even rose when the experimenters pretended to put in stronger light bulbs but actually put the same ones back.

Western Electric realized something strange was happening; the firm spent five years hunting the true reason for the production rise. Finally, it dawned on the researchers: the workers simply responded to attention being paid them. The experiment itself told them the company was interested in them, they felt important—and they worked harder.

Other interesting and useful psychological discoveries have followed. The researchers have learned, for example, that the old-time industrialist was utterly mistaken in his belief that his employees would accomplish more if kept on the job for ten or twelve hours. They have learned that rest periods contribute to efficiency; as a result the "coffee-break" during which workers stop to rest and talk is universal in American business.

Also, at least partly, as a result of their researches, the modern American factory is a masterpiece of industrial architecture, often located in pleasant rural surroundings—and is a far cry from the London sweat shops of

Karl Marx' experience. Not long ago I visited the workers' club at the International Business Machines plant near Poughkeepsie, N. Y. It included a theater, with a gigantic revolving stage, bowling alleys, tennis courts, shooting galleries, a golf course, library, swimming pool and lounge.

More than 25,000 American companies maintain recreational programs for their employees; according to the National Industrial Recreation Association, of Chicago, Ill., industry spent a billion dollars in 1956 alone on recreation for employees. Today most American firms have large, trained industrial relations staffs, experts who are trained in the techniques of furthering a healthy relationship between company and employees. Their guiding principle is that high morale is basic to high productivity.

The constant drive to raise productivity is not confined to industry; agriculture also feels its impact. The American farmer owns his own land. He has the strongest personal incentive to strive for greater productivity; larger crops per acre mean higher income for him and his family.

While industry has grown and urban population has soared, the demand for agricultural products has likewise expanded, even as farm laborers have been leaving the land to join urban industrial labor centers. The only way to meet the increasing demand for farm products was and is to increase productivity per laborer on the farms.

Aided by industry and science, which supplied him with machinery, fertilizer and insecticides, the farmer has risen to the opportunity offered by ever-increasing demand. Only 15.6 of working Americans are engaged in farming today. Yet, they produce more than enough to feed the nation and to supply the agricultural raw material for industry. Increased farm productivity, is largely the result of a combination of material incentives and improving techniques and facilities.

Incentives have been primary in the growth of the American economy. Incentives determine the willingness of human beings to work and produce. Recognition of personal dignity, decent working conditions, a sense of purpose and material incentives are all considered indispensable factors in achieving greater productivity. In such a framework, the Marxist concept of "class struggle" (i.e., class oppression by the capitalists vs. class rebellion by the workers) has no place. Indeed, it is incompatible with democratic industrialism because it hinders productivity.

Increased productivity and a rising standard of living.

Lenin once wrote: "Surplus capital will never be utilized for the purpose of raising the standard of living for the masses . . . for this would mean a decline in profits for the capitalists." An elementary understanding of the American economic system betrays the absurdity of Lenin's statement. For increasing productivity has gone hand in hand with a rising standard of living for the masses. The improvement in the standard of living is expressed in the relationship of wages and prices. The present-day American wage-earner can buy more and better goods while working less time than ever before in history.

The "surplus capital" created by increased productivity has been used steadily to raise the living standards of the masses, again for the reason that mass production requires mass consumption and both depend on mass purchasing power.

For practical results, consider the work-time necessary to earn the price of consumer items in the two largest industrial nations of our time. The average American worker must work eight or ten hours to buy a pair of shoes; his Soviet counterpart must work 70 to 100 hours to by a pair of comparable quality. The American must work 25 to 30 hours to buy a suit; the Soviet must work 120 to 140 hours. With one hour's wages, the American can buy more than a kilo of meat, while his Soviet equal must work three or four hours. In 20 days the American can earn the price of a modern refrigerator or electric stove; the Soviet must work at least two months for these items.

Americans have reaped the rewards of productivity not only in material products, but also in leisure time and recreation. These have been blessings of increasing productivity. Leisure time has nearly doubled for the average employed American since 1900, and seems likely to keep on increasing. Figures compiled since 1910 indicate that Americans have tended to take two-thirds of the potential increase in goods and services, and the remaining third in shorter working hours and more leisure time.

This same increase in leisure time has been instrumental in the development of many new multi-million dollar industries. These produce articles or render services for recreational and cultural purposes. The new industries serve the changed and changing social habits of Americans.

Fifty years ago, a worker going fishing or playing golf would have been a remarkable sight. Today, neither would draw so much as a curious stare. Leisure and higher personal incomes have also contributed to the cultural elevation of the general public. In the United States culture is not subsidized by the government for propagandistic purposes; yet there are about 200 professional symphony orchestras and 2,000 theater groups, while 500 million books are sold each year.

At present Americans work five eight-hour days each week; but the trend is toward a still shorter work week and longer paid vacations. With the advance of automation, the work-week will shrink—to keep the balance between increased production and employment. The introduction of improved methods or new kinds of energy will bring higher worker-productivity and greater production; in turn, prices and wages will be steadily readjusted so that, with fewer hours of effort, people will be able to buy more and better goods. This is not idle prophecy; it is sound prediction, based on the American economy's past and present.

V—A MASS CONSUMER MARKET

"Capitalism" has been condemned by its critics as the economic system which "benefits the few." Whether the accusation was leveled correctly at old-style capitalism is immaterial. Of much greater practical significance is that American "People's Capitalism" of today is geared—by its very structure—to "benefit the many." Mass production of consumer goods cannot go on without a mass consumer market.

Prerequisites for a mass consumer market.

A large population alone does not guarantee a mass consumer market. If it did, countries with many millions of people would automatically enjoy a high standard of living. But people count economically only when they take part fully in the economic process. Thus, the key to a mass consumer market is not how many millions live within territorial boundaries, but how many are financially able to participate in the consumer market.

People who can afford little beyond the bare necessities of life may be considered almost non-existent as far as this mass consumer market is concerned. They resemble, in a way, untapped natural resources.

As was noted earlier (Ch. IV), a mass consumer market must have two dimensions; it must extend continuously from one end of a large economic unit to the other, and the vast majority of all strata of people must take part in the economic process as consumers. The market must have both "width" and "depth." In many countries, it has the former, but not the latter; that is, the market is "shallow." No matter how populous these countries may be, production—and prosperity—must remain limited. Their consumer markets lack "depth."

In the United States there was a constant effort over the years to achieve both, with the stress first on "width," and now on "depth."

The first objective was accomplished by removing obstacles to free, unrestricted flow of interstate commerce.

Removing man-made obstacles to trade.

The unsatisfactory experience of the original 13 American states in developing interstate commerce under the Articles of Confederation was influential in the thinking of the men who framed the Federal Constitution in 1789. Article I, Section10 established that ". . . no State shall, without the consent of Congress, lay any imposts or duties on imports or exports." This, in effect, created a free-trade area within the boundaries of the United States.

At the same time, the Constitution made the Congress responsible for regulating commerce between the states and with foreign nations.

In these early years of the new nation, most commerce was carried via water, along the Atlantic seaboard and the river waterways. Roads were few and primitive, and land transportation costly. For these reasons, the first detailed legislation affecting interstate commerce dealt with sea and river navigation.

The freedom of interstate commerce from local interference was also strengthened by several early decisions of the U. S. Supreme Court. In 1824 the Court ruled that "if there is any one object riding over every other in the adoption of the Constitution, it is to keep commercial intercourse among the States free from all invidious and particular restraints . . ."

Later decisions established that powers granted to Congress over interstate commerce by the Constitution were not confined to whatever was known or in use at the time of the Constitution's adoption, but followed the progress of the country. By 1866 the development of the railroads led the Congress to enact the first Federal laws regulating overland interstate commerce.

These concepts of free interstate commerce had their opponents. In some instances groups exerted pressure for state legislation in the field of interstate commerce. But time after time the Supreme Court held such regulation was beyond the scope of state power. It considered as an "elementary and long-settled rule that there can be no divided authority over interstate commerce, and that the regulations of Congress are supreme." Throughout the years, the Court has held firm to its conviction that "in all commercial regulations, (Americans) are one and the same people."

The role of transport and communications.

Legislation alone cannot establish a market from one end of a country to the other. Goods must be carried from producer to market. Without transport there can be no wide market; the products of industry and agriculture would be sold near the site of production or not at all. Without the growth of adequate transportation, the American legislative abolition of restrictions on trade would have been meaningless.

The greatest American transportation growth has come since the end of the Civil War in 1865. Now, in the mid-20th Century, railroads in the United States cover approximately 240,000 miles of main tracks and another 400,000 miles of trackage of all kinds—the total exceeding 25 times the circumference of the earth. Running on these tracks are some 43,000 locomotives, two million freight cars, and 44,000 passenger coaches and sleepers, plus another 120,000 cars of special or auxiliary types.

In addition, there are nine million trucks on American roads, and about 30,000 interstate and long-distance buses, traveling between cities and towns and serving rural areas. Last year 53 million motor vehicles—44 million of them privately-owned—travelled more than 500 billion miles!

The most important early means of transportation, the water routes, have continued to play an important role in American economic life. Inland waterways have greatly expanded their traffic capacities, having been improved by locks and dams and by the introduction of specially designed diesel-driven towboats. Raw materials, agricultural products and fuels still comprise the bulk of waterways' cargo; but semi-finished and finished goods, like iron and steel products, petroleum goods, chemicals, and machinery are now being carried via lakes, rivers and canals in increasing volume.

The startling expansion of air transportation can hardly be overlooked. Today more than 25 million people travel by air each year within the United States. Equally, the telephones and telegraph networks are now so finely dispersed that even comparatively sparsely-settled areas are well served. Currently there are more than 50 million telephones in use throughout the United States.

If we were to confront a map of the American nation that showed railroads, canals, navigable lakes and rivers, airlines, highways and the communications systems, we would see a veritable maze of criss-crossing lines. Like the arteries of the human body, these arteries of transportation and communication channel the life-blood of the American economy to the remotest corners of the land. They make the horizontally wide market a reality.

Personal income and a consumer market.

But "width" alone is not enough. A mass consumer market must also have "depth." To achieve depth, government, business and labor have worked together and separately to re-stratify personal incomes. Often, not all parties were conscious that the end result of their efforts was development of the mass consumer market. Motives varied. Yet, planned or not, the outcome has been the growth and maintenance of the market.

The basic part of this market are the middle income families. Statistical studies demonstrate that an increase in personal income is not necessarily followed by an equal increase in consumption. A family with a total income of $1,700 is likely to spend almost the entire amount on consumption. On the other hand, a family with a $15,000 income may spend only $9,000 on consumption and save the rest. A family with a very large income, say $50,000 after taxes, may save and invest more than two-thirds of the total. Obviously, consumption does not increase in direct proportion to increasing income.

A low-income family may well spend all its money for consumption; yet, its total expenditure will still be rather small. The high-income family, on the other hand, is apt to spend only a small part of its money on consumption—withholding the rest in savings. Thus, the mass consumer market can depend on neither a majority of paupers nor on a wealthy minority. Its growth and health must depend on a vast "middle-income" group, families with incomes around a level where, economists say, the "propensity to consume" is satisfactory.

The re-stratification of personal incomes.

The development of the "middle-income" base has not been the result or even the objective of dogmatic philosophizing or deliberate planning. Yet government, business and organized labor have contributed in many ways to its growth. Often measures were taken, for humanitarian reasons, to improve the lot of working people; democratic institutions undertook to correct the inequalities of the old capitalist system. When these measures proved economically sound, they became integral elements of the new system.

Other changes have been the result of practical experience and economic necessity. In 1914 Henry Ford raised the daily minimum wage of his auto workers to $5. At the time he was probably interested in attracting more skilled workers to his factory, in order to step up production, cut the cost per unit and sell at a lower price—thereby increasing his sales volume. He may not have understood the vast implications of his decision, which is often cited as the beginning of the new approach to prosperity through mass production and consumption. Aware of the implications or not, Ford was impelled by the basic principles of the system, which were already in the shaping, to adopt a labor and wage policy destined to have a broad impact on American economic thinking.

As might be expected, the Ford wage policy was not greeted by contemporary businessmen with enthusiasm. It did violence to their conception of old-style capitalism. In blazing new trails of business behavior, Ford, like most pioneers, encountered derision and antagonism; colleagues and competitors resented the intrusion of new practices. In their well-known shells, they felt safe. Who knew what lay outside?

But times were changing fast. The American industrialist today accepts as basic such concepts as "mass production and small profit per unit," and "high wages and low prices." He recognizes the need for a great bulk of middle-income families.

The continuing growth of the middle-income group is traceable in large part to the labor unions, with their constant effort to win greater pay and improved working conditions. Technological progress has supported the unions' efforts. It has brought the need for better-educated, more greatly skilled men in the factories. The jobs for unskilled labor grew less; the worker has tended to become a technician, earning more pay and with it a changing way of life. His higher income and changed living pattern put him in the middle-income group; and practically speaking, he can now afford the goods and services previously beyond reach.

An equally significant role in income re-stratification has been played by the American government, using primarily fiscal and taxation policies. The Federal income tax is of particular interest. Tax rates are progressive and large incomes are slashed heavily. Thus, while the family with a $5,000 income may pay $536, or ten percent of the total, the family with a $10,000 income will pay $2,000, or 20 percent. Rising incomes are matched by rising rates. The family with an annual income of $90,000 will give up more than half in Federal income tax, or $46,000.

The levelling effect of progressive taxation is quite interesting. Consider two well-to-do families, one with an annual income of $17,000 and the other of $400,000. Simple arithmetic shows that the second family has 25 times the income of the first. But this is before taxes are paid. After taxes, the first family retains about $10,000 and the second $60,000. Now the second family has only six times the income of the first.

People all over the world have heard about the popular American television quiz shows. On one of them a contestant may win—after answering correctly immensely difficult questions on subjects ranging from Astronomy to Shakespeare—$64,000. Yet, this does not mean he will take $64,000 home with him. The Bureau of Internal Revenue will take almost half of his winnings as income tax. Indeed, to take home $64,000, a TV quiz contestant must win almost $500,000.

Hard as the progressive taxation system may seem on the quiz winner, its purpose is not to punish wealth. On the contrary American tax laws contain many provisions intended to channel the greater income of the wealthy into productive sectors of the economy. This is accomplished by treating investment income more leniently.

On the whole, the American taxation system is fair, as well as economically sound. By levelling income differences and strengthening middle-income groups, it has been a major factor in developing the American mass consumer market.

Consumer credit and the American market.

Consumer credit has been criticized for several reasons; yet it has played a key role in the development and maintenance of the American mass consumer market. Let us see how consumer credit operates in practice.

Consider a young couple, married just a year and expecting a child. They earn $5,000 and would like to have a house that sells for $15,000. Their income and way of life allow them to save perhaps $800 or even $1,000 annually. Under these conditions, they would have to save for 15 years to buy the house. But by then their child will be grown and preparing to leave his parents for a separate life. The couple would no longer need a house and the market for houses would have lost a customer.

There are millions of new families facing similar circumstances; obviously, if the price of houses had to be paid in full at the time of purchase, the demand for houses would be sharply reduced. At this point consumer credit steps in. Our imaginary couple, with an income of $5,000 a year, cannot buy a $15,000 house all at once. But over 20 years the family will have earned an income of $100,000. So, using consumer credit, they buy the house now—when they really need it—and pay for it little by little, while they enjoy its use.

The "buy now-pay later" concept has vastly changed the habits of the American consumer. He can buy on credit everything from a dress or a pair of shoes to a stove or a tractor. Hundreds of thousands of housewives visit the stores every day and make huge numbers of credit purchases. They use "charge accounts," which enable customers to defer payment for goods until a specified time. When credit is extended in a "charge account," the customer pays no more than if he had paid in cash at the time of purchase.

In the other kind of credit buying, on the well-known "installment plan," the sum total of the installments equals the cash price plus a carrying or service charge. If Mrs. Jones wanted a new washing machine that carried a price tag of $199, she might decide to buy it on an "easy payment" plan. She might make a "down payment" of $5 and 12 monthly payments of $17.50 each. This would add up, however, not to $199, but to $215; the additional $16 would be the carrying or service charge. Still, Mrs. Jones preferred to buy on the installment plan and not for cash. Why? Because it is doubtful that she could have paid the entire amount in cash at one time. The installment plan makes it possible for many Americans to enjoy the things they want when they want them.

The American housewife may accept the added burden of "carrying charges" for still another reason. If she had $199 and wanted a washing machine, but had to pay for it in cash, she would have, in the end, only one item—the washing machine. But by dividing her money into small "down payments," she can buy several items at once and pay for all of them later with small, monthly installments.

Thus, she enjoys simultaneously the use of the many things she needs and wants. Perhaps American husbands would prefer that their "better halves" did not have such irresistible inducements to buy. But husbands, too, think quite highly of installment plans as a method of acquiring a new car. In any case, consumer credit is an important fact of American economic life.

None of the criticisms of consumer credit are totally unfounded. It has been pointed out that consumers could save the necessary sums and buy goods for cash, avoiding the extra carrying charge. Yet, it seems a quirk of human nature that people are more likely to save in order to pay debts than to put money aside for later purchases.

Other critics say consumer credit exerts inflationary pressure on the economy. While not wholly invalid, this charge should not lead to the extreme step of banning credit as altogether harmful. In practice, American consumers have been moderate in their use of credit. They have tended to borrow less than their total holdings. Thus, in 1954 Americans owed $75 billion in housing mortgages, $30 billion for durable purchases, charge accounts and personal loans, and $10 billion for so-called "financial loans," that is, loans from banks and insurance firms. The total consumer debt was about $115 billion.

This is a staggering sum, acknowledgedly. Yet, at the same time American consumers held claims on others for $380 billion. Consumers were owed a large part of the business debt, as well as a large part of the government debt. Consumers also held a large part of the sums owed by financial institutions, in the form of insurance policies and bank deposits. All in all, American consumers have tended to spend less than their total incomes.

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The American system has developed a variety of incentives and devices over the years to meet specific economic needs. The Federal government, through trade, social and fiscal legislation, the business community, through increased productivity, consumer credit and contractual benefits for the workers, and the labor unions, through wage demands, have all helped to develop a mass consumer market.

Based as it is on a strong middle-income majority, the American consumer market has achieved remarkable "width" and "depth." It extends from coast to coast without artificial barriers and all social strata participate as consumers in this economic process. This mass consumer market is vivid proof that economic well being for all can best be had in a free society. It is a devastating rebuff to propaganda cliches about "capitalist exploitation" of an "impoverished proletariat."

A major theme of Marxist theory is that a capitalist economy leads toward ultimate concentration of wealth in a few gigantic enterprises, whose owners will exploit without restraint a vast expropriated proletariat. Wealth and power will concentrate in the hands of huge monopolies, and the fruits of labor will be enjoyed by a few mighty overlords, while labor is left enough for mere subsistence. The argument is often heard that the American economy is dominated by these monopolies, and that they really control the political and economic life of the nation. Against this, we have the evidence that rampant exploitation is economically impossible in a system based on *mass production, mass consumption, and mass purchasing power,* and the American claim that theirs is a competitive economy. This important issue merits close study.

Monopoly or price competition?

It may be helpful to recall that "monopoly" (one seller) means, in effect, complete lack of competition. In an economy dominated by monopolies the consumer has *no choice* but to buy the products of monopolistic enterprise. There is no other supplier, and this is the essence of monopoly. In practical effect, the monopolistic enterprise deals with a *captive consumer.*

Dealing with a captive consumer, monopolistic enterprise can determine with impunity the quality and price of products. Such enterprise can also limit production, expand margins of profit, discriminate in marketing, and offer low wages to workers who have no other employer for their skills. Unrestrained, monopoly can become an economic tyrant and exploiter of the people. Do such absolute monopolies exist within the American economy? The answer must be an emphatic, "No!" They cannot exist because, if for no other reason, absolute, unrestrained monopolies, leading to artificial shrinkage of both production and consumption, are incompatible with a free mass production economy.

"Monopoly" as such is not necessarily harmful. In special cases it may even be economically desirable. A city, for example, is usually supplied by *one* electric company; *one* gas company, *one* water company and *one* bus company; all are monopolies. They are encouraged because people consider it more economical and efficient to have a single company carrying out these particular tasks.

To prevent abuses, the monopolistic enterprise operates under a franchise granted by public authority. Prices, quality of product or services, profits, methods of operation, and maintenance, improvement and expansion of facilities are under public supervision. Under such conditions, monopoly is not objectionable. What Americans have tried to prevent is the growth of *absolute monopolies* which can enslave the market and exploit captive consumers.

Price competition, on the other hand, is not always possible or even desirable in a complex economy based on mass production and mass distribution. Price competition is certainly possible when two self-producing ice cream or vegetable vendors at a village market engage in a miniature war of price-slashing in order to take away customers from each other. But as the economy grows more complex and becomes better organized, price competition is less and less feasible. Costs of production become more or less uniform throughout an industry; the prices of raw materials vary little; the margin of profit is practically the same for similar enterprises; wage agreements with labor unions often cover not just the workers of one enterprise, but the workers of an entire industry. For these reasons, the pure price competition of "laissez-faire" capitalism applies in only a small sector of the American economy.

In many cases, unrestrained price competition is not desirable. As the components of cost and, consequently, of selling price become more uniform, a price-slashing war among rival producers may not be advantageous to the over-all economy. It may lead to dangerous reduction of profits and curtailment of funds for expansion and renovation. Some enterprises facing failure may resort to the expedient of lowering quality standards. Furthermore, any attempt to minimize losses by lowering wages would be bitterly opposed by labor unions and might have serious social consequences. In brief, unrestrained price competition could undermine the very foundations of the system, if it were applied at all times and in all cases.

Combating monopolistic practices.

The strong opposition of the American public to unrestrained monopoly is not a recent phenomenon. This hostility toward unrestrained monopoly and questionable business combinations goes back to the days of the American colonists. One cause of the American Revolution was the attempt of English commercial and industrial interests to obtain through legislation monopolistic power over the import of manufactured goods into the colonies. British capitalists also wished to curb colonial manufacturers and make England the sole market for colonial raw materials.

Throughout its history, the American nation has held the conviction that individuals should be free to exercise their own business judgement. Americans believe that men and businesses should compete freely in order to eliminate inefficiency, improve quality and establish fair prices. They also hold that free enterprise should operate for profit, because the prospect of profit attracts new enterprise and more capital into an expanding economy. These concepts stemmed from the still more basic belief that in a democratic society the individual has the right to enter freely the business or profession of his choice and to enjoy the fruits of his labor. These fundamental convictions have helped the underdeveloped United States of a century ago to become the industrial giant of today.

The concept of free business choice and activity has been tempered in the United States by the belief that government has certain obligations to the people; that above all, government should make sure that freedom of action is not used by some as an excuse to harm the public. While "laissez-faire" capitalism in Europe often furthered near anarchy in the economic sphere and led to the exploitation of the weak and unsuccessful, Americans have tended to emphasize economic freedom *under law.*

In the decades following the Civil War, American industry expanded considerably. Powerful corporations came into being. Many corporations attempted, often with success, to eliminate competition and dominate important segments of the economy. A most successful device was the so-called "trust." The stockholders of associated companies would assign their stock to a board of trustees and receive in exchange "trust certificates." The trustees thus secured total control over a range of associated companies, sometimes obtaining substantial domination of the market, and not infrequently virtual monopoly. Soon the term "trust" became a popular—or rather unpopular—term for all types of large business combinations which aimed at eliminating competition.

Public resentment was further aroused when it became apparent that common law did not provide sufficient legal weapons against such monopolistic combinations. In response to public pressure, both major political parties condemned in their platforms of 1880 practices which—according to the Democratic party platform—"while unduly enriching the few that combine, rob the body of our citizens by depriving them of the benefits of natural competition." Ten years later, in 1890, public anti-monopoly sentiment found legislative expression in the Sherman Anti-Trust Act, which provided that "every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several States or with foreign nations . . . is illegal."

The passing of the Sherman Act was only a first step; it did not solve the problem overnight. Partly because of loose wording, it failed to check the growth of trusts and other business combinations. At the outset of the twentieth century the tactics of big business combinations led many to believe that the very foundations of free enterprise were in jeopardy. President Theodore Roosevelt, a firm believer in "fair trade," led a crusade against the trusts. The results fell short of public expectation but Roosevelt's campaign was a dramatic step in the preservation of economic freedom under law.

Still, more legislative action was necessary. Woodrow Wilson in his first administration sought to establish a "New Freedom" under law. In order to strengthen the Sherman Act, Congress passed in 1914 the Clayton Act. Its provisions prohibited discrimination in favor of preferred customers, price discrimination between localities, holding companies, interlocking directorates and other practices aimed at curbing or eliminating competition. On the other hand, the Clayton Act strengthened labor unions by stipulating that "nothing contained in the anti-trust laws be construed to forbid the existence and operation of labor . . . organizations . . ."

To supervise enforcement of the Clayton Act and prevent "unfair methods of competition," an administrative agency was established known as the Federal Trade Commission. The Commission has broad latitude in determining what constitutes an "unfair method of competition." If the FTC suspects a violation, it is authorized to conduct hearings and to issue "cease and desist" orders. In the event any enterprise fails to comply with the order, the Commission is authorized to bring the matter before a Federal court.

While the Commission has not fulfilled all of the high hopes of its sponsors, it has been an important factor in protecting the system by focusing attention on unfair and harmful business activities and initiating action against them.

After the First World War, a new wave of monopolistic business combinations swept the business community. Some of these were the result of mass production which called for larger economic units. Others, however, were aimed at curbing competition and monopolizing the market. The administration of Franklin D. Roosevelt moved against monopolistic combinations by redefining and enforcing the anti-trust laws. The Temporary National Economic Committee, appointed by Congress in 1936, made a detailed study of business concentration, intending to prepare the ground for prosecuting violators of the anti-trust laws. Also in 1936, the Robinson-Patman Act to protect small business was enacted; it outlawed the sale of goods at prices which discriminated between localities or individuals, or at unreasonably low prices aimed at destroying a weaker competitor. Though often criticized as complicated and verbose, this Act has proven quite useful in the long run.

An attempt to combine the requirements of mass production and mass distribution with the concept of fair trade was embodied in the Millard-Tydings amendment to the Sherman Act in August, 1937. This, as did the McGuire Act of 1952, recognized the peculiarities of a mass production economy by allowing agreements with retailers to sell branded or trade-marked commodities (e.g. *Lux* soap, *General Electric* refrigerators, or *Alligator* raincoats) at fixed prices. The purpose of this legislation was to sanction the "fair trade" laws enacted by a great number of states. These laws barred the retailer from unilaterally reducing the price of a product—even at a loss—in order to attract customers. Obviously, the manufacturer of the particular item—though he did not suffer direct financial loss—was harmed by the practice because the reputation of his produce was impaired.

The practical effect of all these pieces of legislation depends, to a large extent, on their interpretation in the courts. The Sherman Act, for example, condemns "every" contract, combination, or conspiracy in restraint of trade. The Supreme Court, however, in the Standard Oil case (1911) interpreted the Act as condemning only those contracts or arrangements which impose "unreasonable restraints" upon trade. This is the so-called "rule of reason" doctrine. It recognized a broad area of judicial discretion in dealing with business concentration. In recent years, however, the doctrine has been combined with the concept of "per se violations," i.e., practices which are in themselves harmful, such as price-fixing, boycotts, division of markets, apportioning of customers, and elimination of competition through unfair price reduction. The list of "per se violations" appears to be expanding, thus assuring the consumer of greater freedom of choice in a competitive economy.

Competition in the American economy.

There is no doubt that most Americans believe in the advantages of competition. They consider competition the driving force leading to human achievement, economic well-being, and general progress. However, by "competition" they do not necessarily mean the "price competition" of classical economists. They rather mean competition that attracts customers through better products and better services at prices the majority of the people can afford. They believe the consumer must under no circumstances become a captive deprived of choice. Except for the public utilities and service enterprises, which are under close public supervision, the American consumer deals with an array of independent, competitive business concerns.

The impartial observer will agree that American enterprises are constantly striving to improve their products along with their methods of production and distribution. The advancement of ways and means to satisfy human needs and desires is a major objective of the American economy.

Yet, from what we know of the viewpoint of monopolistic enterprise, such striving is alien and unnecessary. Why should monopoly, already assured of a captive market, bother to develop new products, better services, or improved facilities? Monopoly has no incentive for striving.

If American corporations spend billions of dollars each year—as they do—for these very purposes, they are certainly quite far from monopolistic.

In a single year (1956), American enterprises spent almost ten billion dollars to advertise their products. Clearly the objective of advertising is to convince prospective customers that the product of company A is better than the product of company B. Comparison between similar products is implied in advertisement.

When monopoly dominates an industry, there is little room left for such comparison. Yet, in America today, at least two major communications media—radio and television—derive their incomes from advertising. The American people do not pay directly for their radio and television entertainment and information; in the long run they pay for these in the purchase price of various advertised products. The manner of payment is secondary here; the salient fact is that American corporations find it necessary to advertise and promote their products—obviously because those products face competition. Otherwise, their expenditures would be absurd.

Similarly, expenditures for product improvement would be pointless. Yet, American firms spend staggering sums for research and development, and the American market is regularly supplied with new or improved products, the result of years of laboratory and production-line effort. For example, nearly one-third of General Electric's employees are currently working on products not manufactured by the firm in 1939. Corning Glass Co. estimates that three-fourths of its 1955 income derived from products developed since 1940. And half the annual sales of the DuPont company are of products in use only during the last 20 years. General Foods Corporation, likewise, reported in 1953 that 16 percent of total sales were of products developed since the Second World War. A rough estimate based on the total current sales of all American enterprises is that one-fifth is of products non-existent 15 years ago.

If more evidence of non-monopolistic behavior is needed, consider: American enterprises spent the colossal sum of $72 billion in 1955 and 1956 for renovation, expansion and improvement of their plants, machinery, offices, and other facilities. In 1957 the estimated total expenditure was $39 billion. In New England, comparatively small Northeast Airlines was to spend $17 million on new turboprop passenger planes; in Northern California, Container Corporation, Lockheed, and Douglas aircraft were to spend millions each on research and improvement. In all fields, American firms continue to strive for better operations and products, *the better to compete with one another.*

Several forms of competition.

A closer look at the American economy reveals more than one form of competition. First, there is what one might call "direct" competition, the competition among enterprises producing the same products or rendering the same services. At present there are about 4,250,000 large and small business establishments in the United States, employing more than forty million people. Many are in the same type of business, competing with each other to expand their clientele. Some compete locally, others on a nation-wide basis. To attract more customers, they may use the inducement of lower prices. But more often than not they rely on better quality, better service, a more attractive appearance of the product, effective advertising, superior salesmanship, and good public relations.

In a highly organized economy like the American, the price of refrigerators produced by two different companies may vary little. The customer, however, will be attracted to one or the other by useful extra features, the established good name of the company, better financing terms or superior product performance. This is a new kind of competition, with little if any resemblance to classic price competition; in the long run, it has assured the American consumer of constantly improving quality and variety.

A second type of competition is the "indirect" competition which takes place among companies providing parallel services or products. A person may travel between two cities by air, by bus, by train, or by ship. Cargoes may be transported by trucks, by railways, or by river barges. Companies in parallel lines compete to attract customers. Their relative prices play an important role, but so does their efficiency, speed, safety, and reliability. Another example of "indirect" competition is seen in the aluminum industry. At present there are only three companies in the United States producing primary aluminum. At first glance their position appears almost monopolistic. In fact, however, they must compete not only against one another but also against the "indirect" competition of steel, lead, zinc, or plastic, which can be used equally well for many purposes. It is hard to find an industry providing services or products so unique as to be immune to "indirect" competition.

There is a third element, similar in many respects to competition, at work in the market; let us call it the *interplay of counter-balancing factors*. The effect of these factors can be best explained by an illustration. The major automobile manufacturers are important customers of the large steel firms. If the price of steel rises prohibitively or the quality of steel deteriorates, the auto manufacturers will object and demand that price and quality be restored to reasonable levels. Otherwise, they cannot furnish the public with cars at a price the consumer is willing to pay. The steel producers, who depend in turn on the auto firms as major customers, have good reason to heed their complaints. Bankruptcy of auto manufacturers would not serve the interests of steel corporations. In a sense, industries like these giants confront each other daily, counter-balancing each other's power.

Another example is offered by the retail chain stores. Their management is primarily interested in providing customers with products of good quality at reasonable prices. They are bound to object to arbitrary price changes by their suppliers. They can back up their protests with a refusal to handle the merchandise of the troublesome producer—an action that may very well ruin him. The end result is that the consumer can buy better products at fair prices.

A fundamental law of nature is that action begets reaction. It seems, in similar fashion, that bigness in one sector of the economy tends to produce bigness in another, and checks and balances emerge.

Concentration of production may be dictated by the need for efficiency and greater productivity. But those who are affected by the bigness of one corporation or industry soon combine their efforts to counter-balance its power. The giant buyer confronts the giant seller, the producer of raw materials confronts the producer of finished goods; the manufacturer of consumer items faces the retailer and the retailer in turn faces the consumer; the large food proccessors must bargain with the large chain distributors; business management must bargain with labor unions; even government daily confronts industry as a customer or an employer.

In a complex economy like that of America, powerful units sometimes do not compete as consistently as a theorist might wish. They may find it advantageous to pool resources and combine power. But if such combinations appear dangerous and harmful to normal business intercourse—try to turn the consumer into a captive consumer—the government, under the pressure of free public opinion, will step in. Thus, public opinion becomes another center of counter-balancing power. Anti-monopoly legislation is the concrete evidence of this form of counter-balancing power in a democratic society. Though it has not always been as effective as many Americans would like, in the long run it has kept the economy free of absolute monopoly.

Business firms must also compete to attract labor. In the United States the worker is always free to quit his job and seek a better one. For this reason, an enterprise must pay its workers at least as much as they could receive somewhere else. The American system is as firmly hostile to the notion of *captive workers* as it is to the concept of captive consumers.

Finally, private enterprise competes to attract capital. Since the investment decisions of millions of people depend largely on the records of corporations, it is, obviously, to the advantage of each firm to show steady progress.

To sum up, the American economy is based on multifaceted competition. Competition in the United States, no longer used solely to adjust prices through the interplay of supply and demand, is a primary force propelling the American economy forward.

In the democratic economy, production and distribution of goods and rendering of services is entrusted primarily to privately owned enterprise. However, this does not preclude government enterprise when the nature or magnitude of a project calls for public initiative.

Still, there are more than four million private enterprises in the United States today; they range from giants like General Motors Corporation to the small grocery store at the corner. Their annual output in 1956 was estimated at $300 billion.

The Corporation.

Among various kinds of business activity, manufacturing accounts for the largest volume of income and employment in the United States; more than 30 percent of the 1956 national income was generated by manufacturing enterprises. A century ago this position was held by agriculture, which today accounts for little more than 6 percent of the total national income. Retail and wholesale trade account for about 18 percent of the national income, yielding more than finance, insurance, real estate, mining, and construction combined.

More than 55 percent of U. S. national income is produced by some 600,000 "artificial beings, invisible, intangible, and existing only in contemplation of law," as John Marshall, first Chief Justice of the Supreme Court, described them. These are the "corporations," ranging from giant industries with hundreds of thousands of stockholders and employees and billions in dollar assets, to small businesses, with just a few employees. The corporations, "artificial beings," are the dominant form of economic organization in America today.

A corporation is an association of individuals organized under specific provisions of law for the purpose of performing specified tasks. Thus, General Motors Corporation is an association of some 600,000 stockholders organized under the laws of the State of Delaware for the purpose of conducting business in the automobile industry and related fields.

The corporation is considered a legal entity, separate and apart from the individuals that own and direct it. As a result, a person may transfer his ownership interest in a corporation without the approval of the corporation or of the other stockholders. If, for example, he is one of 250 thousand stockholders in the General Electric Company, he can sell his shares and get his money back by notifying a stockbroker of his intent to sell.

The relative ease with which an owner (stockholder) may sell his interest in corporations encourages people to invest in this kind of business firm.

Once stock has been issued, the corporate existence is no longer directly affected by the death or misfortunes of individual stockholders, or by purchase or resale of company stock. The only effect of re-sale is that the new stockholder is entitled to voting rights and dividend privileges formerly enjoyed by prior owners of the stock.

Because the corporation is not affected by transfer of ownership, it is considered a permanent form of economic organization. Of course, a corporation may terminate when its charter expires, or when stockholders decide to dissolve it and liquidate all assets, or when the company fails.

Corporations, as a rule, are not managed directly by the owner-stockholders. Ownership and management are, for practical purposes, in separate hands—although many corporation executives own stock in their firms.

A significant result of this separation of ownership and management roles is that management can be primarily concerned with the firm's sustained progress—and not with quick profit alone. Stockholders may prefer the fast, large dividend; yet management may determine that the long-term interest of the firm calls for a lower selling price and smaller profits, or for "plowing back" a larger portion of net profit into renovation and expansion.

Stockholders elect a board of directors, in effect, a legislative body that decides on matters of policy. The directors deal with more than questions of major policy; they also observe and check the performance of management, and the progress of the enterprise, as well as matters ranging from multi-million dollar expansion plans to the color scheme of walls in a reception room.

Actual implementation of their decisions is entrusted to a new type of professional man, the business executive; it is he who administers policy and actually runs the firm. The life of a top business executive may often appear hectic and killing. Still, the material rewards and the prestige and power inherent in many of these positions make the heavy load of responsibility attractive to many Americans. These hard-driving men have contributed much to the industrial growth of America—and not always for selfish reasons.

Just as policy decisions are made by appointed officers and not by the stockholders, in the same way the assests of the corporation, such as buildings, machinery and money, are owned by the corporation—not by the stockholders. Likewise, debts are contracted by the corporation, not by the stockholders. The corporation owns the assets and goes into debt; individual stockholders are not responsible for unpaid debts. Thus, creditors of a corporation cannot demand payment from individual stockholders.

Let us assume that Mr. Jones, who owns a house and has a savings account at the First Trust Bank, bought one hundred shares in the Titan Corporation, at $5 a share. If Titan went bankrupt with several hundred thousand dollars in debts outstanding, corporation creditors would not seize Mr. Jones' house and savings. Mr. Jones' loss would be limited to the $500 he paid for his hundred shares.

This type of limited liability gives great protection to the individual investor and the corporation is thus in an excellent position to attract investment capital from individuals.

People's Capitalism.

Mass investment has been indispensable in the industrial growth of the United States, and the resulting elevation of living standards. The corporate form has contributed more to the development of mass investment than any other single factor.

Like mass consumption, mass investment can be sustained only by a vast majority of middle income families. Paupers cannot invest; they need all of their meager incomes to buy food, shelter and other primary necessities.

The development in America of a great group of middle income families has, at the same time, created a mass investing public. In the corporate form, that public found an outlet for their millions of dollars of savings.

There are two main conditions for the development of mass investment. First, the great majority of people must have sufficient income to provide a decent living and still leave a surplus to save. Second, the public must be willing to save surplus funds instead of spending them in frivolous consumption or hoarding under the mattress.

This willingness to save and invest depends largely on the existence of practical incentives, i.e. on the expectation of material benefit in a climate of financial certainty. Incentives may differ from one kind of investment to another. A person opening a savings account expects to receive interest and, at the same time, to save money for the proverbial "rainy day;" the purchaser of an insurance policy wants to provide his family with financial security in the event of unexpected calamity; a stockholder expects dividends, and owners of government or business bonds expect pre-arranged interest. Other investors may be primarily concerned with the long-term growth of firms in which they invest. According to researchers working under the auspices of the Brookings Institute, a private organization, the majority of the investing public buy securities in the expectation of a long-term increase in their market value.

In the United States there has come into being a great bulk of middle-income families, and a range of practical incentives for those families to save and invest. The result is that today practically all levels of American society participate in the saving and investing process. It is noteworthy that 56 percent of the 8.6 million families owning corporate stocks and bonds are in the middle income range; their annual incomes are between $4,000 and $10,000. The largest groups within the total number of individual stock and bond owners are the skilled, semiskilled, clerical employees and housewives; they comprise 51.5 percent of the whole.

Some form of life insurance is owned by more than 113 million Americans. More than 30 million families have savings accounts, while 21 million families own government bonds and other securities.

According to estimates of the Securities and Exchange Commission, the American people held, in 1956, $37 billion in savings accounts; $88.8 billion in all kinds of government bonds; $109.9 billion in private insurance; and $335 billion in corporation stocks and bonds. Here are some comprehensive figures in terms of percentages:

Type of Investment	Percentage of total family units with one or more owners
Life Insurance	82.3%
Savings accounts	52.8%
U. S. Series "E" bonds	41.9%
Annuities and pensions	20.9%
Publicly owned stocks	14.0%
Privately held stocks	4.6%
Real estate mortgage and bonds	2.7%
Corporate bonds	1.3%

All in all, 90.7 percent of all family units in the United States have one or more forms of investment. This is perhaps the essence of "People's Capitalism."

A rather new development among investment devices—of particular interest to citizens of nations lacking highly-developed investment mechanisms and a strong tradition of direct investment—is the mutual investment fund. Such funds have grown rapidly in America since the end of the Second World War.

A *mutual investment fund* purchases the stocks and bonds of many diversified corporations. In turn, the fund issues its own shares. A person buying stock in a mutual investment fund indirectly invests in a variety of private enterprises, thus spreading his investment and consequently reducing his risk.

In December, 1940, there were 296,000 holders of mutual fund stock in the United States. By September, 1956, the number had grown to 2,402,000, while average net assets per holder increased from $1,513 to $3,540. The total net assets of 135 mutual investment funds in November, 1956, totaled almost $9 billion.

Behind the growth of mutual funds lie sound reasons. Individual investors, especially small investors, often lack the experience and detailed knowledge to make the right choice of firms in which to invest savings. Directors of a mutual fund will have both; investing is their business. Thus, they can protect investors against serious mistakes and at the same time channel funds to enterprises promising sustained progress.

New investment-encouraging techniques, along with the strengthening of middle incomes, would enable many countries to bring about mass investment and the kind of People's Capitalism found in the United States.

For Americans, their People's Capitalism—with more than 90 percent of the population holding investments in the economy—has immense social significance. It gives them a direct, personal stake in the preservation of their nation and its economic system and in a stable, prosperous and expanding economy.

Propaganda cliches about "Wall Street monopolies" are for the ignorant and uninformed. The wealthiest single individual is a financial dwarf beside the aggregate wealth of the millions of American investors. It is on the latter group that the American economy is based; literally, Americans own their nation's wealth.

Research and Development.

Inefficiency, waste, stagnation and dogmatism are fatal for business management in a truly competitive economy. American private enterprise realizes this acutely. No longer is the search for new products and methods the pursuit of the lonely inventor. This responsibility is now discharged by industry, with all its resources, as an integral function of economic existence—especially in the last 15 years. The duty of industrial laboratories is truly formidable: they must, in a phrase, "create progress." As much as any other single factor, scientific research has brought modern America into being. The men with the test tubes have been responsible for an unending stream of new products and materials, for development of whole new industries, and for opening up vast new job possibilities.

Scientific research proved its potential for promoting economic progress and stability at the close of the Second World War, when defense industries were hit by wholesale cancellation of military orders and consumer industries faced a large pent-up demand for their products. Scientific research was largely responsible for solving both problems. It helped American industries enter new fields, thus opening up new job opportunities for millions of Americans; it contributed to speedier satisfaction of consumer demand by developing new materials and production methods. As a result, the post-war depression predicted by some observers never materialized.

A conscious, continuing effort to discover new products and ways to make them calls for huge capital outlays. According to the ninth annual *Survey of Business,* published by McGraw-Hill, more than five billion dollars was spent on research and development in 1956 alone. In 1957, it is estimated, the total was $6.3 billion. These expenditures will involve some 200,000 scientists in 4,000 industrial laboratories. Almost two-thirds of all research and development expenditures will be made by private industry, with most of the balance coming from government.

The great stress on research and development pervades industry. Altogether, more than 15,000 companies are engaged in major scientific projects, including pure research. Since 1950 American industry has spent on research and development more than it had in the previous 170 years of the nation's history.

Research and development are most marked in such fields as atomic energy, aircraft manufacturing, missiles, chemicals, textiles, synthetics, electronics, and petroleum. The creation of altogether new materials, ranging from dacron or nylon to radioactive isotopes, is impressive testimony to the accomplishments of research and development carried on by the American business community.

Business and education

The leaders of industry are now recruited from highly educated executives throughout the ranks of managerial personnel. A college degree is now a "must" for all men entering managerial ranks. Columbia University's Graduate School of Business, Harvard's School of Business Administration, and the University of Pennsylvania's Wharton School of Finance and Commerce are outstanding examples of accelerated educational development brought about by the complexity of industry and the need for talent and knowledge in a competitive economy.

The education of future business executives is not limited to strictly vocational training. Since 1945 the Harvard School of Business Administration, realizing that business had come to require much more than an understanding of markets, has reorganized its curriculum to give future business executives, in addition to knowledge of finance, marketing, and accounting, a broad understanding of the world they live in. Many universities have since adopted this broad approach.

The business world, recognizing the need for educated men, has given steadily greater financial aid to institutions of higher learning. It is estimated that in 1956 alone private American enterprises contributed more than $100 million to colleges and universities. Since 1950 business contributions to higher education have more than doubled. Foundations, created by individual businessmen or wealthy families, further contribute to the expansion of the frontiers of knowledge. One, the Ford Foundation, in 1956 made grants to universities, research centers, and other educational institutions, totalling $602 million.

Advertising in a free mass production economy

Forty-five thousand people were entrusted in 1956 with $10 billion by level-headed American businessmen. They were given broad latitude in deciding how to spend this formidable sum. The only requirement was that they gain more customers for the products of the enterprises of these businessmen.

These forty-five thousand men work for the advertising agencies which have taken up the promotion of the products of American industry and agriculture. It is unlikely that serious-minded business executives would entrust these agencies with huge sums of money every year unless the practical results warranted it. Yet the advertising industry is often under sharp indictment. It is charged with tantalizing the public with dream-world pictures, leading them to overspending, and to worshiping the material things in life. Advertising campaigns are often attacked as tasteless and vulgar, if not amoral.

It is true that occasionally American advertisers appeal to materialistic urges, and that the cultural level of their campaigns sometimes leaves much to be desired. But it should be remembered that the primary purpose of advertising agencies is to expand the market for products of their clients—not to elevate the cultural level of the nation; this is the task of education and religion. Besides, as the cultural level of the people rises, advertising, too, must elevate its standards. Poor advertising ideas draw public laughter; and because they are ineffective, are of necessity discarded. In the last few years there has been an unmistakable trend toward higher standards.

The most vigorous critics of American advertising cannot deny that no other influence attacks obsolescence so openly or expands boundaries of human demand so broadly. The advertising industry wins acceptance for new products and by stirring increased and more fastidious demand sets the wheels of technology in motion.

Advertising is not only the by-product of competition; in turn, it stimulates further competition. Also, by creating an urge to enjoy more and better products, it is a major factor in sustaining mass production. Its advocates and supporters point out that by stimulating sustained mass production advertising contributes to improved products and lower prices. Without public pressure generated by the higher standards developed through advertising the kitchen mixer which now weighs six pounds and sells for $16 would still weigh 150 pounds and sell for $128. They further point out that 626 magazines of general circulation, 1,200 daily newspapers, 9,000 weekly newspapers, 2,947 radio stations and 465 television stations serving more than 38 million homes would have a hard time surviving in their present form without advertising.

If a product does not live up to the advertising claims, the public will respond by refusing to buy it. This powerful lever in the hands of the public no advertiser is likely to ignore. Because of this, truthful advertising is by no means the exception. As a result, the American consumer public has come to rely on advertising as a reasonably trustworthy guide. They expect advertising to bring to their attention new products created by research.

In brief, despite unavoidable shortcomings, advertising in the United States is an important factor in stimulating demand and creating the atmosphere necessary for sustained mass production.

Motives and objectives.

In the competitive American economy, the need for talented men has opened the top positions of business to those who can bear heavy responsibility. Every year business representatives scout the American universities, seeking talented young graduates. Men of humble beginnings, starting on the lower rungs of the business ladder, have reached the top; there were no rigid class or family barriers to stop them. The names of those who started "at the bottom" and reached high positions of trust and leadership in the American business world would fill a huge volume. The climb to the top is not easy and many fail; but few fail because of family background or national origin.

The constant search for talented men is not a matter of creating good will on the part of the business community; it is a paramount necessity in the American economy. Enterprises which suppress or neglect talent pay a heavy economic price as rivals expand at their expense. In a competitive economy like the American, favoritism, dogmatism and inefficiency have little merit.

The question is often asked—who really controls American enterprise? True, there are several business concerns controlled by powerful individuals with large holdings. Also true, the small individual investor has practically no direct control over the day-to-day or even the long-term policies of the enterprise in which he is an owner-stockholder. The first impression, that powerful tycoons control the American economy from Wall Street leather-paneled offices, is nevertheless deceptive. A closer look reveals a different picture.

For purely practical reasons, it is impossible for the small individual investor to exercise direct control over the policies and day-to-day operation of a large business concern. He has neither the detailed knowledge nor the necessary experience. There are highly trained—and highly paid—executives to carry out these tasks. If every investor could intervene at will to impose personal views, chaos would ensue.

Yet, the individual investor is not an impotent pawn in the hands of sinister financial magnates. Millions of individual investors do exercise ultimately effective control. In buying the securities of an enterprise—or in getting rid of them—they daily render a vote of confidence or no-confidence in the management. This is actually formidable control. Few individuals own enough wealth to provide gigantic American corporations with the capital they need. The corporation must depend heavily on the mass investing public for its capital. If the record of an enterprise shows mismanagement, inefficiency, unstable progress, or absence of sustained growth, the public, as well as the various financial institutions, will think twice before investing. This very real control no business executive can afford to ignore.

The basic motive behind private enterprise is the realization of profit and, as long as man engages in business of his own, he is striving to make a profit for himself. How does the profit motive operate in the large corporations which account for the bulk of American production and distribution?

The owners of these corporations are widely scattered, numbering millions of people living in all parts of the country. The management in many firms may own no stock or a relatively small number of shares. Then for whom does management strive to make a profit? Nominally, they try to realize profits for the owners. Actually, this is only one motive—and not the strongest one. Most American business executives recognize that they are responsible not only to stockholders but also to employees and to customers. They strive to strike a balance among the divergent interests of the three groups. In the long run, well-managed enterprises will realize profits for stockholders, provide better pay and steadier employment for employees, and turn out superior products at lower prices for customers. Business executives *have* to pay attention to the needs of all three groups because they depend on the good will and cooperation of all three. Nevertheless, in day-to-day operations as well as in long term goals, managers are primarily concerned with the income and growth of their enterprise. Their job, their career depends on its success or failure.

Within the corporations there is competition and rivalry among executives of different departments. The production vice-president may want more funds for engineering development; the sales vice-president asks for a larger advertising budget to buy television time for product promotion; the head of research asks for better equipment; and so on. To convince the board of directors, they must present "results"; they must demonstrate what they have accomplished in the past and what they propose for the future. Success or failure of his department means success or failure in personal terms for the department head.

* * *

The typical American business executive is not a fly-by-night trader, charging what the traffic will bear. Certain practices are forbidden by law, as harmful to the whole society. Many are excluded by tacit agreement. In most trades, there are "certain things that are just not done," as a business executive once told me. The business executive strives for regular, gradual, sustained advance in profits, over a long period of time—not for upward jumps that cannot be maintained, and may in the long run prove harmful.

In a free economy cut-throat operations are bound to arouse public opposition and give rise to legislation banning unhealthy practices. This has happened in the past, and will happen in the future—as long as there is freedom.

VIII—ORGANIZED LABOR

Order in human affairs is established under compulsion of law, or by the contrasting action of forces which leads to compromise. In a system of monolithic industrialism, almost all economic relationships are rigidly regulated by decree of a political elite. In contrast, the democratic system leaves a great deal to individual initiative and to the interplay of counter-balancing forces. One of these forces in the United States is the labor movement.

The major objective of the labor unions.

The principal role of American labor unions is to secure for their members—and by extension, for consumers at large—a greater share of the nation's product. Together with government, American labor unions help preserve a mass consumer market by securing sufficient purchasing power for the labor-consumer.

The activities of American labor unions are important because more than one quarter of all working Americans belong to them. In contrast to politically-minded labor movements in other parts of the world, American unions have concentrated on a single major objective: to obtain higher wages and better working conditions for their members—within the existing system of free enterprise. They have sought a larger share *without trying to overturn the* *system.* The result is that today the American wage-earner enjoys the highest standard of living in the world.

To achieve this objective American unions have exerted pressure for appropriate legislation; but they have relied even more on direct dealings with management. Collective bargaining has become their most important method of attaining their ends.

In the last twenty years the power of American labor has reached unprecedented heights; there are many who believe that some union leaders are abusing their power. Evidence has been presented indicating that criminal elements have infiltrated the ranks and even the leadership of a few labor unions. However, under the pressure of public opinion, the labor movement itself is using the democratic process to purge itself of these undesirable elements.

The growth of the labor movement in the United States

The American labor movement did not always have the power it enjoys today. True, labor organizations of some kind existed in colonial times. But only after the industrial expansion following the Civil War did American labor attempt to form national organizations. The first notable effort along this line came in 1869 with the formation of the Knights of Labor. The Knights brought many unions together into a loose federation, politically motivated and influenced by the teachings of Marx. During their most active period the Knights engaged in violent strikes, trying to achieve better working conditions for labor. The influence of the organization declined, however, with the establishment of the American Federation of Labor in 1886. Unlike the Knights of Labor, the AFL opposed partisan intervention in politics, preferring to solve labor problems within the existing political and economic framework.

The task of the early unions was not easy. To win recognition as bargaining agents for their members they had to struggle against stubborn employer opposition, worker apathy, public distrust. Union membership grew slowly and irregularly until the First World War. Wartime needs made labor more prized. Government officials recognized union leaders as spokesmen for the workers. This increased the prestige of unions, and by 1920 union membership reached five million.

During the twenties, the influence of labor unions waned and membership fell to less than 3.5 million. Many employers fought bitterly against unionism; workers who joined the unions were not only fired but also "blacklisted"—that is, their names were made known to other employers who, in turn, refused to give them work.

A long history of conflict, often leading to violent strikes, eventually convinced the American public that the creation of a constructive labor policy was a paramount necessity. An early step was the Railway Labor Act of 1926, guaranteeing railway unions the right to organize and bargain collectively. It also set up mediation machinery for the settlement of disputes between railway workers and management.

Another significant step was the Norris-La Guardia Act of 1932, limiting the use of court injunctions in labor disputes and outlawing the employer practice of compelling workers, before hiring them, to sign an agreement not to join a union. The National Industrial Recovery Act of 1933 and the National Labor Relations Act of 1935 established beyond dispute the right of employees "to organize and bargain collectively" through representatives of their own choosing. The 1935 measure—otherwise known as the Wagner Act—made peaceful bargaining between labor unions and business management an objective of Federal policy. It defined and outlawed certain unfair practices on the part of the employers. It also created the

National Labor Relations Board as the supervisory agency to implement the law.

Under the stimulus of this kind of legislation union membership rose from 3.5 million in 1935 to nine million in 1940. Once again the democratic framework had provided the necessary machinery to eliminate practices and conditions which were considered economically and socially harmful by the majority of Americans.

Many employers continued to oppose the vigorous organizing drives of unions. Nevertheless, with the passing of time, more and more unions have won recognition; a new generation of business executives better understands the workings of the system and organized labor's important role.

The AFL was, by and large, a federation of unions organized along craft lines—e.g. carpenters, bricklayers, plumbers and the like. During the middle thirties, with the continued growth of big industry, disagreement arose over organization of industrial workers. The AFL wanted industrial workers to join established craft unions. On the other hand, many advocated organizing industrial workers by industries—one union for automobile workers, another for steel workers, and so on. As a result, some AFL unions split away to form the Congress of Industrial Organizations. In the next twenty years both organizations grew in membership and power. Finally, in 1955, they merged into a single gigantic confederation with more than 16 million members.

During the Second World War, the labor shortage and the support of the government for the labor movement further stimulated union growth.

At the same time, there were strikes in industries in which industrial peace was regarded as vital to national well-being. Some of these arose from jurisdictional disputes between unions. Such practices led Congress to adopt in 1947 the Taft-Hartley Act, amending the Wagner Act to place a variety of restraints on union power. Often criticized as too conservative, the Taft-Hartley Act does not seem to have prevented unions from obtaining extremely favorable contracts in recent years. Indeed, the benefits gained in the post-war period for union members far exceed all previous gains.

At present, the leadership of the AFL-CIO is engaged in a vigorous effort to "clean house" of criminal or self-seeking elements which have crept into the movement. They realize that organized labor's future depends on the ability of the movement to preserve its freedom not only from outside control but also from internal corruption.

Labor as a balancing factor.

As we have stressed, the role of organized labor in the American system is primarily to secure more income for their members. But in securing greater purchasing power for the workers, the labor unions also help to keep the system in balance by contributing to the preservation of a mass consumer market.

If the basic motivation of businessmen—profit—is tempered by considerations of long-term progress, similarly, the primary objective of unions—namely, to "get more" for labor—is tempered by the realization that excessive wage increases may lead to inflation and the wiping out of gains. Still, neither business executives nor labor leaders are saints; both occasionally act in ways that may in the long run prove harmful to the nation.

When labor leaders do press for excessive wage increases they encounter resistance from the business community and public opinion; in extreme cases they may arouse the intervention of government itself. The possibility exerts a moderating influence on union leaders who might otherwise disregard the common interest. As a rule, however, American labor leaders have shown repeatedly that they have a strong sense of responsibility not only to their unions but to the nation as a whole. The fact that dishonest or self-seeking labor leaders can make headlines is proof that these are the exceptions, not the rule.

Besides winning cash income for members, the unions have also pressed for social legislation establishing minimum worker compensation, setting limits on working hours, enacting safety regulations, and the like. Aware that the interests of union members are linked with those of the rest of society, unions have generally supported social welfare programs of local, state, national, and even international scope.

Neither unions nor union members present a unified political front. Political campaigns at all levels may find different unions lining up behind different candidates. Individual members' views will differ even more, although almost all union members tend to support candidates they regard as "friendly" to organized labor. Yet, a union's political endorsement of a candidate cannot assure the vote of the membership. Union members are not *only* union members; they are parents, taxpayers, churchgoers, sports enthusiasts, and club members, too. In an election, one of these other "identities" may prove stronger than the union affiliation.

The pressure of unions for higher wages and other benefits is often a stimulant to efficiency and economic growth. Business has come to regard it as inadvisable to reduce costs by lowering compensation for labor; with unions standing by as watchdogs cutting wages is almost impossible. With this avenue blocked, business management is induced to find new and better ways to cut costs. In other words, by seeking a larger share of national income labor indirectly stimulates technological progress. Increased productivity is fostered by the combination and counter-balancing of business and labor objectives—i.e.

greater profit vs. higher workers' compensation. Often management tries to pass increased labor costs onto the consumer. But there is a limit to this subterfuge; the firm may easily "price its products out of the market."

Not all labor union activities foster productivity and efficiency. Union control over hiring and dismissal, promotion by seniority, direct limitation of productivity (e.g. restrictions on the number of bricks a bricklayer may put in place per day), and, in the past, union opposition to technological advance, have adversely affected productivity. The present attitude of labor leaders toward technological progress and particularly toward automation is significant.

Today, the major concern of American labor leadership is that technological progress be carried forward without serious harm to worker well-being. By exerting pressure for sustained income, labor unions are preserving the purchasing power of consumers while industry develops through research new employment opportunities. Playing a significant role in the preservation of a mass consumer market, labor unions have become a major pillar of the American economic structure.

Labor union practices.

Mere increase in wages is not by itself a guarantee of prosperity. In practice, increase in wages accelerates the flow of money and expands the money supply. Without parallel increase in the supply of products the result will be inflation—"too much" money chasing "too few" products.

Increased wages not matched by increased productivity may lead to higher prices or lowered employment. An enterprise confronted with higher labor costs may be forced to increase the selling price of its products. Except for a few products, a price increase tends, as a rule, to reduce sales. Decline in sales will lead to decline in production, and this to layoff of workers. In the long run, these workers will be absorbed by other enterprises whose products face increased demand. In the interim, however, many families will have undergone hardship.

If wage increases in a major industry are matched by wage increases in other industries, declining production and unemployment may be averted; increased income for all wage-earners will spur demand and production. Still, wage increases not justified by increased productivity tend to have an inflationary effect; they may prove harmful to the very workers who are supposed to benefit.

In recent years, many union leaders have turned their attention to obtaining so-called "fringe benefits." This term is applied to such features as paid vacations, profit-sharing plans, recreation facilities, health and hospitalization benefits. The phrase, "fringe benefits," is actually an understatement. By 1956 the sum total of union pension and welfare funds had reached the staggering amount of $25 billion. In 1957 another $8 billion was expected to pour in, divided about evenly between pension plans and programs for life insurance, sickness pay, and hospitalization and medical benefits. In most industry plans, about three-quarters of the money is contributed by employers, one quarter by workers. More than 75 million people are covered by these plans, including the families and dependents of workers.

Such pension and welfare funds are now so strongly established and well-regarded, they are becoming important sources of investment capital. Supervised by carefully-chosen union, management and public trustees, these funds help industry to renovate and expand by investing in sound business. They also contribute to stability through their regular purchase of securities.

In recent years, many unions proclaimed as a major goal "guaranteed" employment or a guarantee of income security. One, the United Automobile Workers, in 1955 won a partial victory toward this end, the now-celebrated "guaranteed annual wage." Under this plan, auto manufacturers guarantee their workers at least 65 percent of their regular income during any part of the year they are laid off. Such layoffs are traditional in the industry, while plants are re-tooled to turn out new car models, and the UAW has long fought their effects. Since the layoffs are usually only of several weeks duration, auto workers are now certain of a reasonable income throughout the year.

Other unions have wage contracts tagged to the cost-of-living index; wages increase and decrease automatically, following fluctuations in the cost of living. These arrangements, however, have been criticized as inflationary.

Guaranteed annual wages, pension funds, indeed high wages generally, can hardly be reconciled with a Marxist theory of "labor value" under capitalism. These phenomena make sense, however, in the American system where sustained mass purchasing power is indispensable to mass production.

Unlike unions in other countries, American unions do not use the weapon of strike for political reasons. Strikes in the United States are called for economic reasons—when collective bargaining between union and mangement fails to provide mutually acceptable solutions. The breakdown of collective bargaining, however, is the exception rather than the rule. More than 100,000 labor contracts are signed every year in the United States—96 percent of them the result of peaceful negotiations.

* * *

In conclusion, American labor unions are an integral part of the economic system and play an important role in balancing the economy. Under the protection of law they have attained power and wealth—which, with few notable exceptions, they use well. They shun political affiliation, concentrating instead on economic issues. Instead of relying on government intervention to determine working conditions, they prefer free collective bargaining. Grievances of individual workers are handled by trained "shop stewards" under terms defined by contractual agreement with the firms. The strike is not a political weapon, used often and lightly, but a last resort, employed when collective bargaining reaches stalemate and arbitration fails to find a solution.

Especially in the last twenty years the attitudes of labor and management toward each other have changed considerably. The desire to "bust the union," the everyday creed of businessmen a few decades ago, the bitter attacks of labor against "soulless exploiters of human suffering," have both become things of the past. The old, familiar phrases may occasionally be heard, but they no longer have the ominous overtones of earlier times. Those who, in the heat of an argument, bring out the old cliches no longer seem to believe in them. The American economy has come a long way since the days of "capitalist exploitation," and the people have come a long way in understanding economic principles.

IX—IN SEARCH OF STABILITY

It is by now a truism that a successful economic system must produce not only *abundantly* but also *steadily*. Yet, the two do not always go together. It is easier to achieve stability with poverty and stagnation than with abundance and progress. A primitive economy changes little through the centuries, and faces no problem of violent economic fluctuation. Life moves at the rhythmic and unimaginative pace of a camel. But in highly-developed and dynamic economies, the problem is how to sustain prosperity and progress without serious economic fluctuation—and without unduly curbing individual freedom.

Economic stability in a free economy?

The American economy has suffered in the past from economic dislocations; the severe depression of the thirties is remembered most vividly. Recalling the thirties, many people ask: can the American economy produce steadily as well as abundantly, without violent economic crises?

A final answer may never be possible. But for as sound an answer as is ever possible to contemporary questions one should study the measures taken during the past quarter-century to build stability into the American economy, and to armor the economy against economic shocks.

Maintaining and safeguarding the economy against violent fluctuation, at a high level of prosperity, is a primary responsibility of the American government.

Often economic progress results from the conception and introduction of new ideas, creating economic opportunities. Brilliant new concepts or discoveries—harnessing electricity, the development of plastic materials, atomic fission—do not follow a routine schedule. They occur almost unpredictably and at irregular intervals. The progress they engender, therefore, cannot flow in a continuously smooth stream.

Nor can the nation's production and consumption be held in rigid balance. Mild fluctuation is normal in the process of growth and economic development. Deep depression or run-away inflation, on the other hand, are neither normal nor necessary; they represent a breakdown in the normal functioning of a free mass production economy.

At least twice since the Second World War, timely use of the government's economic tools has prevented mild recession from developing into serious depression. Many economists believe that, barring unforeseeable calamities, the American economy now possesses basic features of built-in stability. Still, we should not ignore the human factor. In the last analysis, the success or failure of an economy based on freedom depends on the ability of men to reason.

The causes of economic instability.

Let us consider briefly the causes of instability in a free economy. For the sake of simplicity, we may view the operation of the economy as a stream of money payments to people for their work and then the use of this money to buy the things they want. There is also a constant flow of labor to places of production and distribution, and a resulting flow of products and services back to the people.

In everyday life, the farmer pays his help, the factory manager pays the mechanic, the airline pays the pilot, the corporation pays interest to bond-holders, and so on. The people getting paid for their services pay the grocer for food, the gas company for heat, the doctor for professional services, the city for sanitation and police protection, and the Federal government for postal services, highways, and even jet-fighters.

There are, therefore, two continuous streams running in opposite directions; one is the stream of goods and services, the result of the efforts of people to produce and distribute what consumers will want; the other is the stream of money payments, the result of people being paid for their work and paying others for products and services. If both streams flow at high and stable levels, the economy will operate at satisfactory levels of relative stability. Fluctuations will be mild, without violent change in prices of goods and services or in the totals of employment and income.

Many problems, however, are involved in keeping the two streams in balance. The flow of goods and services is ever changing, both in size and composition. Some products are sold during certain seasons, yet their production goes on throughout the year. New products appear on the market, affecting production and employment in other lines. International complications cause shifts in production and distribution. Defense needs divert labor and materials to the production of armaments. Floods, droughts, or strikes cause unpredictable changes in the smooth flow of the two streams.

These causes of change are more or less common to all modern economies; there is an additional significant cause of change in a free economy: the individual freedom of choice. The consumer, as a rule, is free to buy what he likes and in whatever quantities his budget can stand. More important, the management is free to decide whether to expand facilities, start production of new items, introduce new machinery, or distribute larger dividends to stockholders instead of re-investing company profits. Millions of individual decisions, taken together, can cause important changes in the flow of the two streams and, consequently, in levels of income and employment.

In a monolithic industrial state, free economic choice is almost non-existent. Decisions are made by a political elite which holds the pinnacle of the politico-economic pyramid. This stifling of freedom is a primitive method of achieving stability. Seen historically, it is another instance of a society subordinating the individual to the omnipotent will of the State.

In a democratic society, on the other hand, it is considered paramount that freedom of choice for the individual be preserved. *To achieve relative stability without unduly curbing individual freedom* is a main objective of government. To achieve this end, the American people have voted their government certain tools. These are intended, primarily, to regulate the volume and flow of money.

Instruments for preserving stability.

The actual magnitude of the money stream in the American economy depends on two factors: the quantity of money (that is, the number of dollars in circulation) and the frequency with which the money changes hands.

If the money flow is to be kept in relative balance with the flow of goods and services, there must be control of either the total quantity of dollars or the rate at which money passes from one person to another, or both.

In the United States, the rate at which people spend their money is influenced by legislation favoring development of a vast group of middle income families with a high tendency to consume. This influence, however, is indirect and the government does not control the decisions of individuals. But government is equipped with a number of tools to regulate, indirectly and directly, the *supply* of money.

Under the Employment Act of 1946, the American government is formally committed to the preservation of economic stability. The gist of the Act is that government shall cooperate with industry, labor, and agriculture to promote maximum employment and production, avoid serious depressions, and prevent disruptive changes in price levels—and this within the framework of free competitive enterprise. The Act has become a cornerstone in the development of the American economic system. In the post-war years, its principles were credited with staving off serious economic dislocation despite unsettled world conditions.

A government may take drastic action, like rationing goods, fixing prices, and allocating materials and labor. But in a free society such restrictive measures are acceptable only in serious emergency, as in wartime or in the event of economic catastrophe. The American government relies primarily on indirect regulatory instruments. At its disposal are many tools with which it can promote a steady rise in income and employment and iron out fluctuations around points of balance.

Monetary policies.

One broad category of tools comes under the heading of "monetary policies." The monetary policies deal mainly with the commercial banking system and are for the most part administered by the Federal Reserve System. One device used by the Federal Reserve System to control the volume of money is manipulation of so-called "reserve requirements." Approximately seven thousand private banks are members of the Federal Reserve System. These member banks must comply with reserve requirements, i.e.

must deposit a certain percentage of their assets with one of the twelve Federal Reserve Banks. Reserve requirements are not rigid; they can be increased or decreased by the Board of Governors of the Federal Reserve System. When the Federal Reserve decreases reserve requirements, banks can lend and invest more freely. The general tone of the market becomes "easy," with a corresponding decrease in the cost of borrowing, i.e. in the rate of interest. The opposite becomes true when the "Federal Reserve" raises reserve requirements.

With the experience of the past decades, American bankers are very sensitive to Federal Reserve actions and consider even a slight increase in reserve requirements a caution signal. Thus, raising reserve requirements, in addition to its direct effect on money supply, has a psychological influence on the banking community which should not be underrated.

Another weapon in the Federal Reserve arsenal is the power to adjust the interest rate on "rediscounting." A member bank can increase its cash funds or deposits with the Reserve Bank by depositing "commercial paper," legal evidence that debts are owed the member bank, to be rediscounted by the Reserve Bank. If the Federal Reserve wishes to encourage credit flow and spending, the rediscount rate is lowered; if it deems contraction of credit wiser, the Bank raises the discount rate.

Still another Federal Reserve instrument is "open market operations." The Bank may buy or sell certain government securities on the open market, offering them to member banks. When Federal Reserve buys, money flows into circulation; when it sells, money flows into the Reserve and stops circulating until the Board of Governors deems it appropriate. By manipulating rediscount rates and engaging in open market operations, the Federal Reserve maintains a regular check on the supply of money. Besides having direct economic effects, the employment of these devises serves also as a signal to the nation of prevailing Federal Reserve attitudes and its reading of economic trends.

There is a major difference between rediscounting operations and open market operations. In open market operations the initiative rests exclusively with Federal Reserve. In other words, it is up to the Federal Reserve to decide if purchase or sale of government securities in the market is advantageous to the over-all economy.

In addition to these tools, which affect credit and money supply generally, there are three other, more selective instruments. They deal with stock market credit, consumer credit, and real estate credit.

It is generally acknowledged that by regulating "margin requirements"—i.e. the proportion of cash required by law for the purpose of securities—the danger of excessive credit in the stock market is minimized, the market fluctuations are kept within safe limits.

Another tool at the disposal of government is the temporary restraint of consumer credit in times of emergency. Through proper manipulation of consumer credit, consumer demand can be brought in line with current supply. Removal of restrictions, on the other hand, can spur demand when increased consumption is deemed necessary.

A similar set of devices may be used to regulate real estate credit, especially for residential properties. Authority to regulate certain kinds of real estate credit was temporarily granted the President in September, 1950 when strong inflationary pressures and defense requirements made such authority necessary. These restrictions have since been lifted.

Fiscal Policies.

Old "sound finance" theory maintained that governments could "afford" to go ahead with needed projects only in periods of prosperity. This theory is now defunct; no modern economist would support a policy of "economy" in a period of economic depression. Instead, modern economic thinking holds that taxation and spending policies —i.e. fiscal policies—should provide an array of useful tools for ironing out economic fluctuations.

The change in thinking is fairly recent. Three decades ago it was generally believed that government action, on sufficient scale to cope with depression, could not be taken without jeopardizing the monetary and fiscal structure.

In a climate of such economic thinking, fiscal policy was conceived in narrow and restricted terms. When the severe depression of the early thirties set in, the United States was unprepared to meet the challenge. Yet, thanks to its democratic framework, the country profited from the errors of the past; soon positive measures for a counter-depression fiscal policy were adopted into law.

At present, the American government has the fiscal tools and the economic thinking and administrative machinery to use them properly. The tools are not foolproof; they are being steadily strengthened and supplemented by appropriate legislation. The advantage of democracy is that it can meet the challenges of time without resorting to bloodshed or self-destruction.

What are the fiscal devices at the disposal of the American government today? One could divide them into two broad categories, by the way they function. Some function all the time as automatic stabilizers; others are used by government as particular circumstances require. In the first category are unemployment benefits, social security benefits, farm subsidies, loan insurance guaranteed by the Federal government, as well as the progressive income tax. In the second category are the powers of Congress to raise or lower taxes and increase or decrease public spending.

There are three sources of income in a free economy—

business investments, consumer spending, and government expenditures. Only the third can be wholly under government control without excessive repression of individual freedom. While government can influence the other two sources of income, the influence must be indirect, through monetary policy. Fiscal policy, therefore, acquires great significance, especially in view of the expansion of government operations in modern times.

Through the operation of automatic stabilizers, the government gains time to proceed with discretionary measures deemed necessary to meet disruption in levels of income and employment. More specially, in times of declining business activity and increased unemployment, automatic stabilizers like social security and unemployment compensation go quietly to work providing many consumers with purchasing power. If farm prices are falling, farmers receive subsidies which also maintain their purchasing power. And, in times of economic prosperity, as income increases, tax receipts increase automatically.

While automatic stabilizers unobtrusively exert their influence, government can go forward with more drastic legislative measures. If the country appears headed for a period of declining economic activity, Congress may reduce taxes and authorize expenditures for public works to stimulate the economy. In times of inflationary pressure, the automatic stabilizers exert a restraining influence while the government raises taxes and cuts inflationary spending.

None of the monetary and fiscal devices can by itself prevent economc fluctuations. But their combined and coordinated use can alleviate economic dislocations. The monetary tools can be used more quickly because their application is entrusted to a single agency, the Federal Reserve. The automatic fiscal stabilizers also work swiftly, responding automatically to rise and fall in levels of income and employment.

Statistics and economics, an aid to Government

The choice of appropriate fiscal and monetary policies is not left to chance. The Employment Act of 1946 established the Council of Economic Advisers. The Council gathers timely, authoritative information on economic developments and trends; it appraises the programs and activities of the Federal government in its effort to maintain "maximum employment, production, and purchasing power"; it develops and recommends to the President national economic policies designed to "avoid economic fluctuations or diminish the effects thereof;" and, finally, it assists and advises the President in preparing his Economic Message to Congress. This annual report serves as a blueprint showing clearly where the American economy stands and where it is going. In view of the great influence of the American economy on the rest of the world, this Message is probably one of the most important documents of our time.

By gathering reliable statistical data, the American government obtains a comprehensive picture of the national economy.

The Employment Act of 1946 also provides the machinery of economic forecast and evaluation for the legislature. The Act established a Joint Committee on the Economic Report of the President, composed of seven members of the Senate and seven members of the House of Representatives. This Committee makes a continuing study of matters pertaining to the President's Economic Report and submits to the Senate and the House its findings and recommendations.

* * *

The American government today is equipped with an impressive array of instruments for the control of economic fluctuations and the maintenance of high levels of income and employment.

All these instruments and devices may appear complicated to the layman—and they are. But their outstanding feature is that they represent a sincere and mostly successful effort to achieve stability without destroying, in the process, the individual's freedom of action.

These instruments were not developed overnight; they are the results of experience gained by trial and error. It would be unwise to suggest they be copied by other countries. Conditions differ greatly from one country to another. Nevertheless, these instruments merit study. They are historic evidence that in a democratic society solutions can be found for most social and economic problems without sacrificing individual freedom and dignity.

Even in this age of revolutionary change, the basic aspirations of ordinary men hold constant in every land. The world's millions pursue personal dignity and freedom, national independence, and material well-being. Yet, despite common goals, there is much confusion as to the roads leading to them. Men often advocate or use means which virtually negate their ends—and their hopes. This confusion has bred strife and rivalry, further obscuring basic objectives, and leaving only bitter hatred, frustration, and bewilderment. If a powerful search-light could probe through the heavy fog of misinformation and calculated distortion, it would reveal two ideas contending for the support and loyalty of mankind. One is that the omnipotent State must have total control over the life of the individual. The other upholds the ability of Man to lead his own life and contribute to the common well-being within a democratically accepted legal framework.

As a small contribution in the search for better understanding of the issues that confront us, I have tried to outline fundamental principles and features of an economic system which upholds the freedom and dignity of Man, while assuring his material well-being. This economic system is a sweeping rebuff to exploitation; it could not survive unless it produced for the benefit "of the many". Mass production cannot be sustained unless there is mass consumption, which, in turn, depends upon mass purchasing power. This is a creative circle, in which people participate freely, not only as producers but also as enjoyers of the fruits of their labor.

By satisfying, not merely in theory but in practice, two major aspirations of Man—freedom and material well-being—the American system is a far-reaching advance over old-style capitalism and Soviet monolithic industrialism.

Still one may ask: What practical meaning can all this have for the millions in the vast expanse of Asia; or to the agitated youth who shouts anti-Western slogans in the streets of a Near East capital; or to the multitudes of Africa, startled by sudden awakening to the complexities of the twentieth century? The answer is that the modern world is a complex world; it is getting more complicated every day. Mankind cannot return to the idyllic simplicity of earlier times. On the contrary, all nations are steadily moving into the stream of industrialization. The choice facing the peoples is not between idyllic simplicity and the modern complexity. Industrialization and complexity are sure. The choice is between democracy and totalitarianism.

The opponents of democracy will argue that democratic processes will take too long for the impatient nations of the underdeveloped areas. It is a fortunate whim of fate that the science of the twentieth century can make it less difficult for the underdeveloped countries to choose the democratic way. Young and restless nations, combining the tools of science with democratic economic principles, can find channels for the pent-up impatience of their peoples. These principles can help nations break the vicious circle of ignorance, poverty, and stagnation, and open the road to a brighter future.

From a practical standpoint, much will depend on how the advanced democratic nations cooperate with the underdeveloped countries. The responsibility of the industrial nations to areas that are struggling to travel the road to industrialism cannot be overestimated. And not only have they a responsibility to help the underdeveloped nations; their self-interest demands they do so. Battles of hydrogen bombs and ballistic missiles may never be fought; but the battle between democracy and totalitarianism goes on relentlessly, even in the form of competing economic systems. This battle is rarely spectacular, yet its outcome will determine the world we live in for the forseeable future.

A major advantage of the American economic system is its elasticity. It can adjust to meet particular needs. It can expand or contract in response to the changing requirements of a nation. In 1861, Abraham Lincoln wrote epigrammatically:

> "The legitimate object of government is to do for a community of people whatever they need to have done but cannot do at all, or cannot so well do for themselves in their separate and individual capacities."

This philosophy of government the vast majority of Americans has come to believe in and to practice. It embraces giant private enterprises like General Motors and government projects of equal magnitude, like the Tennessee Valley Authority or the atomic plants at Oak Ridge, Tennessee, and Hanford, Washington. Countries entering industrialization can apply this philosophy of government to their own conditions and problems. The extent and scope of government responsibility from one country to another may vary considerably. Most important is that the people are spared the suffering and indignity of a totalitarian state.

Acceptance of these principles does not mean the world will be shaped in the American image.

The totalitarian ideologies of our time promise to solve the world's economic and social ills by placing total power in the hands of an elite. Experience has shown that this promise involves the sacrifice of human freedom, and the sacrifice of many human lives. Not even the members of the elite are safe. Besides, heavy sacrifices extorted by the totalitarian State are not necessarily matched by substantial material gains for the people. On the other hand, American experience has demonstrated that economic and social inequities can be remedied and real progress can be attained in a free society.

The American economic system of democratic industrialism is a tested method, proven in the crucible of practice, able to secure a high standard of living for the greatest majority.

In this book the reader has an outline of basic principles and features of the system. He can now draw his own conclusions.

35¢ This is an original publication—not a reprint—printed in U.S.A.

A complete examination of flexible economic institutions that nations with widely diverse backgrounds may use to obtain a better, more rewarding future.

The author writes simply, with a fresh point-of-view:

". . . I came to the conclusion that in the United States old style capitalism had given way to a new economic system based on different principles.

'What I had learned I felt should be brought to the attention of my countrymen in Greece who, like myself a few years ago, had a rather muddled and unrealistic conception of what makes America great. I presented my observations on the present day American economic system in a series of fifteen articles, which were published in six Greek newspapers. The favorable reaction in Greece to ... has en-couraged me to undertake this book.

'The American sy... utopian panacea which can remedy all the world's social and economic ills with despatch. There is, in fact, no fixed blueprint by which it has developed. Rather, there is a set of flexible economic principles developed through trial and error over the years, within a framework of democracy."