THE CHALLENGE TO THE OPERATION OF THE
PHILOSOPHY OF LAISSEZ-FAIRE

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THE CHALLENGE TO THE OPERATION OF THE
PHILOSOPHY OF LAISSEZ-FAIRE

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CHAPTER I

INTRODUCTION

Statement of Problem
The problem of this study is to make an appraisal of laissez-faire, and its aims, methods, and accomplishments in its rise to pinnacle heights, its philosophy, and finally its decline in the maelstrom of society demanding more security, today, than ever before, in our standards of economy and living. It will be necessary to show the favorable conditions to laissez-faire and the other developments that caused its fall or decline in modern society.

Definitions of Certain Terms
The term "laissez-faire" refers to private industry, first, as enterprises by one person or partners; secondly, as corporate private industry in which many hundreds may own a limited part of the stock, the major part always being held by the main officials.

The "good life," which came from profits out of private enterprise, is a term used in connection with "laissez-faire."

The meaning of "private enterprise" and the vast fields it covers today includes: farming, manufacturing, selling,
and production. The abuses it has undergone, since our early forefathers first began private enterprise, may be designated as a pioneer spirit of "getting ahead."

A man may be said to be in "private enterprise," no matter how small a business he has. Yet, he has to compete with majority price fixing and government regulations.

The "economic status" is another term frequently referred to in the private enterprise term.

Source of Data

From North Texas State Teachers College library books, magazines, pamphlets, current congressional records sent from Washington by Hatton W. Sumners, Representative from Texas, current newspaper articles, and current magazine articles on "economic," "social," and "financial status" of today, the data have been collected for this paper.

Limitations of Problem

This study is confined to the operation of philosophies that have developed through the years by pressure groups, monopolies, society and industry, and what has been the outcome, so far, in the past and the present-day situation; also the effect of government regulations upon these philosophies and what we may expect as an outgrowth of these developments.
Purpose of the Problem

The purpose of this problem is to study the operation of this "laissez-faire" philosophy through the various economic processes it has gone through; and the weaknesses which have developed with the years of stress and strain and modifications that are taking, and have taken place, over a period of years.

The Method of Procedure

The method of procedure follows an attempt to show the original philosophy of "laissez-faire" and the modifications that have taken place in our attitudes and thinking up to the present time.

The first chapter presents the problem, definitions of certain terms, limitations of the problem, source of data, and the purpose of the problem.

Chapter II defines "laissez-faire" and its types of philosophy, its early history, how it developed, and conditions favorable to it.

Chapter III deals with the operation of this philosophy in the economic processes of the early pioneer days or when laissez-faire was in its heyday.

Chapter IV shows the operation of economies that upset the theory of "laissez-faire" and shows some of its weaknesses.
Chapter V shows the modifications of laissez-faire that are taking place in our economy today.

The Rise and Fall of Laissez-Faire

Practical and theoretical problems are not wholly separate. Men desire knowledge but they strive for certainty. They also want happiness, friendship, beauty, justice, security, freedom, and other values that enlist their practical efforts. Men like those things that further a good life. From the time of great classical thinkers of ancient Greece up through the centuries to the present time philosophy has always included a critical and reflective appraisal of the elements that go to make up a good life. First, critical reflection upon a good life moves into the domain of ideas. When we reflect upon desires, practical interests, and satisfactions, we are attempting to frame a valid theory about human well-being and the institutions that comprise our civilization. A valid theory is a reasonable view which conforms to the requirements of reason. These are important requirements and we cannot leave them out when we turn from theoretical problems of science, religion, and metaphysics which arise from our desire for certainty to the practical problems of morals and social life, which spring from our search for security and freedom.

Secondly, when we study the history of men's ruling conceptions of a "good life," we find that moral, social,
and practical ideas about nature, God, and man are intimately related. Whenever there is a fundamental shift in ideas about nature of things, a change also takes place in the dominant ideals of conduct and in beliefs about human nature, society, civilization, and the "good life." Both sets of ideas are interdependent, whatever may be their relationship. Moral ideals are related to metaphysical or theoretical beliefs. They also reflect changes in actual structure of society, alterations in its institutions, the rise of new social classes, and the decadence of older groups. Objective facts are economic, legal, political, and moral relations. These are the actual bonds that hold people together in society under existing institutions. They are just as objective as the things that make up physical environment.

What is history and its value? It is the study of the changes undergone by these human relationships and the institutions that they embody. The events of history help us to understand the rise and fall of dynasties, wars, the development and decay of institutions. For instance, the industrial revolution of the eighteenth century. The transformation that the economic setup produced was revolutionary in all phases of life, particularly in the fact that all hand work was taken over by machines to a great extent, and this took the home unit and placed it in a mechanism field where large groups work together. So the
ethical ideals change, for on one side are the scientific, metaphysical, and religious ideas concerning the nature of reality; on the other, the actual social situations, the objective, factual institutions amidst which individuals live their lives. So we have three distinct orders consisting of theoretical and ethical ideas and institutional structures. All of these march along, not always keeping step with one another but usually mutual adjustment occurs at some place along the way, because if this were not true we would be like an automobile where the wheels would start off at tangents instead of rolling uniformly in the same direction.

Men desire both freedom and security--security from risks, dangers, vicissitudes of fortune and evils; freedom for the development of their capacities, attainments of significance in realizing desired ends, and the satisfactory living of their own lives.

We are going to have to decide which we had rather have, security -- a sheltered and protected environment by government assurance and absence of too great enterprise and risk -- or freedom. Security suggests certainty. But freedom implies venture and an open world, with its uncertainties and dangers. Medieval society was organized in terms of security. Now do we, who have shifted to an individualized type of living and freedom, want to return to the regimented way of life? I say no! Wouldn't we rather
have the more or less unlimited expression and expansion of the activities and interests of individuals than the regimented ownership by government of our lives?

For a long time now America has stood for the life and mind of the individual, personal satisfactions, purposes, and rights to dominate the scene. In the medieval civilization the principle of authority ruled, and primacy of religion was paramount. In fact, religion dominated the art of painting, sculpturing, music, and architecture.

Even the growing corn and other raw materials, buying and selling, numbers of men engaged in any one occupation, the control of prices, etc., were under guilds or corporation of the town or locality. This was to insure enough of the necessities for the life and labor of its inhabitants. The church was the last word. Economic individualism which came at a later date had not been born then.

Classical medieval thought was an ordered totality, a graded system of articulated parts, classes, functions, subordinated one to another according to their higher or lower degrees of perfection. They were contrived by their intelligence, then imposed upon a world plastic or chaotic. They went on the theory that moral principles are discovered by reason.

Under the modern system of "natural" liberty, each major human interest becomes autonomous and independent.
The literature and art of the Renaissance show abundance of aesthetic treasures found in nature, and life far removed from religious themes. Such paintings of Hals and poetry of Chaucer would have been unthinkable in medieval times. The state becomes autonomous, only upon mastering the resources of nature and life in the service of its own ends. The policy of mercantilism, the duty of the state to foster and protect manufacture and trade, replaces the policy of control by local guild and by church.

Next, it was political control or control by the state that had to be broken. And it was broken by the last of the eighteenth century and early nineteenth century, for by that time it became apparent that the ideals of economic freedom, laissez-faire and the system of natural liberty were becoming somewhat victorious. In this the individual experience acquires a new meaning. Free from external control, the wants, interests, and experiences of individuals, the principles now become central and significant in their own right. The powers of the individual become the source of laws, standards, and institutions. Hence the society and nature, instead of providing norms for individual activity, are regarded as so much raw material to be mastered, and exploited for expanding desires and interests of the individual.

This modern individualism of ours hinges on two twin
concepts -- the right of the individual to do as he will with his own, and his freedom from social and governmental control. Each step from ancient, medieval, and modern history on down has had a marked contribution to our rise and spread of modern civilization and individualism; moral values withdrawn from institutions found refuge in the inner life of the individual, for here purpose was removed from nature. To achieve for society and human nature what Newton achieved for the physical world, nature became in the eighteenth century the tacitly accepted goal of social, economic, and political thinkers. In this we have crossed the threshold of economic individualism, of natural, unplanned security and laissez-faire, and have entered the system of natural liberty.

There is no social purpose that organizes and controls the interactions of individual interests, because they are mechanical. There is a "natural harmony of interests" by means of which analogous, rational, and mathematical principles were supposed to make the physical world an intelligent and harmonious order. So social security was rooted in the rational nature of things; it needs no human contrivance or deliberate planning. There is a natural security based only upon the freedom of individual from all arbitrary interference so the function of government as an instrument of social control must be at a minimum or negative.

The doctrine of laissez-faire follows immediately from
the belief in natural security and natural harmony of interests. It assumes that if not meddled with it will insure its own maximum security and the indefinite perfectability.

The intrinsic value of laissez-faire or free competition lies in the intrinsic merit of the individual to the amount of his worth as a contributor to the wealth of the community, proportional to what he receives and the actual profits he makes, so it was not strange that men imbued with the idea of personal gain looked forward to a future of secureness and happiness. So they believed that industrialism would make problems of life less complex, hence the basis for optimism, hope, and belief in progress. The real object now was individual economic gain; let this have free rein and all other goods would come of themselves. This is the intellectual and institutional framework that lies just behind us.

So, the system of natural liberty has become problematic for us today. The individualized industrial system was well on its way in when Adam Smith wrote The Wealth of Nations, setting forth the principles of laissez-faire or natural liberty. The minute division of labor, mechanized industry, expansion of local markets into a world market, concentrated control of vast masses of labor and capital till it has produced an interdependence that makes it impossible to localize or circumscribe any one specific
interest so as to view it as an individual interest.

In frontier life there was a correlation between what a man was and what he got, between merit and reward. Population tends to increase faster than the supply of food. Nature does not provide sustenance for all the individuals she invites to her table. We find ourselves with the outlook of uncertainty and insecurity similar to that of the nineteenth century, when we see about us a world of competition, industrialism, nationalism, Realpolitik, and conflict of classes. So the two movements of life and thought, industrial revolution and biological theory of a struggle for existence, have shattered the complacent simplicity of free enterprise or natural liberty.

Economic freedom is where one may have a choice of several different acts. But we have reached a constrained situation imposed by the government, sometimes with minority groups and sometimes with majority groups; however, these are involuntary acts and while the majority do not resent them, many of us do.

People are economically free as long as they direct their own economic activities and they have lost economic freedom when their activities are subject to control and regulation by the state. Economic freedom is an asset to those who have great economic power, but a liability to those who have little or none. So when economic freedom is not combined with equality of economic power, many people
will be unable to protect their interests adequately. But it is possible that the limitation does not promote the best interests of the whole. Since the order of society depends on the habits of its members, its progress on their purposes, we find the stability of a state depends on the former and progress on the latter.

Problem two concerning the individual versus society involves questions of interpreting and evaluating different directions of human interest rather than reconciling separate and opposite forces.

Problem three is individual initiative versus collective security. There is much that can be argued on both sides. Men were much more independent when they owned their own tools and could do several things well and had not begun on piece work, which makes companies hire more men than they need in some cases, and not as many as they would need in others. When we have concentration of power anywhere, there is a temptation to abuse it.

So we have the three different attitudes: economic individualism, economic collectivism, and economic liberalism. This last, it seems to me, is by far the most sane step. It would not demoralize individual initiative, neither wipe out collective security. Each of these three works upon the emotions.

Economic individualism justifies itself only when one
can show that the general welfare reaches its maximum, when governmental interference in economic affairs is kept at a minimum. Number four shows the doctrine of laissez-faire to be the economic order that cannot be improved upon, and it holds that society is an aggregation of individuals who promote their own interests by making use of the factors of production, that is, land, labor, and capital. The philosophy of laissez-faire reflects the childhood of industry. The industry of today is now adult or grown up, hence the large-scale industrialism destroys the theoretical basis of laissez-faire. The harmony of interests has given way to the conflict of interests.
CHAPTER II

THE PHILOSOPHY OF LAISSEZ-FAIRE

The doctrine of laissez-faire is that in the system of natural liberty the interests of individuals are supposed to harmonize with the good of society as a whole. Governmental meddling produces an artificial order which never works nearly as well as the natural order. So economic individualism was defended for a long time, on the grounds that interference in economic affairs would create more abuses than it would remove, and that it would create abuses where none existed before. This doctrine was formulated in the early stages of the industrial revolution and is known as the doctrine of "laissez-faire." It was formed by philosophers and economists and so was cut to the pattern of existing economic conditions of that time. Although these conditions have been superseded by the economy of mass production, the doctrine has survived and it has formed the intellectual bulwark that protects modern economic practices from or against legislative attacks.

The laissez-faire doctrine holds that society is an aggregation of individuals who promote their own interests by making use of the factors of production, land, labor,
and capital. Each individual is engaged in the production of goods, and since he needs other goods besides the ones that he himself produces, he seeks to exchange his surplus for what he lacks himself, or does not produce. The level of production is determined by needs of exchange. Hence if there is a scarcity of a certain kind of goods for which there is a great demand, more people will produce that kind of goods and prices will naturally fall. So the philosophy there is that, since competition is greater, it will force producers to improve techniques of production and methods of marketing which make for economy in other directions. But this is certain to have a bearing on lowering prices of commodities.

The philosophy of laissez-faire here was that the "king could do no wrong" -- this doctrine could not be improved upon, it was perfect. The public good reached its maximum where there was no interference with its operation. Any interference always limits the free economic enterprise of the individuals making up society. The belief is that the mechanism of exchange would get out of order. The prices and quantities of goods would be determined by governmental whim, rather than by needs of natural supply and demand. So everybody's welfare would be diminished, therefore governmental interference must be kept at a minimum; it must be used only for removing hindrances.

The optimism of this doctrine is amazing, but its
altruistic ends are realized by the results of egoistic interests. The Adam Smith idea was that free trade would promote public welfare, forgetting the selfish interest that many had in promoting their own welfare. This doctrine has survived from an age of handicraft and small-scale industry to the age of mass production. The philosophy of laissez-faire reflected the childhood of industry and today the large-scale industrialism has destroyed the theoretical basis of laissez-faire. The philosophers and economists of the eighteenth century had a very different outlook from the economic scene at the present time. In their time everybody was able to get what he wanted if he were willing to work hard enough for it. When individuals are deprived of their economic freedom, economic progress is impeded. Harmony of interests has given way to the conflicts of interests such as great corporations, trade associations, labor unions and organized groups of all sorts. These combines are determined on securing their own interests at the expense of others, by limiting or even eliminating competition. When corporations enjoy a monopoly and limit production or prices, they certainly do not exist for the best interests of the public as a whole. Because of these abuses, equality of opportunity has faded into the dim past and most opportunities have been seized by a fortunate or enterprising minority. New opportunities are created,
but the number does not keep pace with those that are eliminated.

So the objectives of real laissez-faire have not been realized in a modern industrial society. The regulations of public utilities, promotion and protection of health and morals of the community, pure food and drug acts, lottery tickets, white slavery, safety devices in factories and mines, have gone farther than the philosophers of free enterprise ever dreamed they would go. Certainly in these present strikes of long duration not only have the workers been affected economically, but people all over the world have suffered through the holding up of production of drastically needed commodities. And the case of laissez-faire becomes more precarious when we know that the state would be powerless to interfere in a general strike if freedom of action is to be protected at any price. Of course, the exponents of laissez-faire never contemplated the possibility of concerted action either by workers or their employers because business was a one-man or a partnership affair. Strikes of every description are economically wasteful. The ideal of laissez-faire, the frictionless operation of the economic mechanism, can only be secured through their elimination by compulsory arbitration.

By the Bill of Rights of our Constitution guaranteeing the liberties of the individual a "new social order" was created, establishing the American system of free enterprise. It relied not on the wisdom of initiative -- or lack of it -- of rulers,
but tapped instead the limitless resources of all people's enterprise and the inborn desire of every individual to achieve economic sufficiency for himself and his family. It was not in the power of government or of a ruling class to tell anyone what he might do with his own.  

Our American System of Free Enterprise is far more than just a way of "doing business." It is a system which at its best comprehends good sportsmanship; gives free play to the laws of supply and demand and of competition; produces an ever improving standard of living; develops initiative, character, and discipline; and in many ways goes far toward improving the morale and bettering the lives of our people.  

It is rather coincidental that the great classic of Adam Smith, The Wealth of Nations, and the American Declaration of Independence were written in the same year. When men acquired the right to their own persons and labor power, and secured command of natural resources, they demanded as a corollary the right to engage in any kind of business for which they had a liking or which promised the greater return. Having won freedom, the masses wanted to use freedom for their own personal advancement. The Declaration of Independence and the Constitution expressed not merely a desire for independence politically, and religious tolerance, but reflected a demand for freedom of economic enterprise as the kind of interests of the individual dictated and saw fit to foster. So "free enterprise"

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was regarded as the "American way." Adam Smith in his book explained with great care the economic logic of the system of free enterprise as the colonies and the young republic practiced it. His ideas became the brief for a doctrine of "laissez-faire," but the forms have changed and would have greatly shocked him today.

This doctrine or philosophy of free enterprise was really a white man's "emancipation proclamation." In the feudal system a man had to be born on certain land under certain conditions to reap the benefits of feudal laws. With exploration of new countries it established new commercial relationships. This brought about new techniques of production. Invention of steam engines and various other equipment caused an acceleration of scientific discovery. These gave rise to the early factory system.

The factory employer wanted to be free to recruit labor from those working on land or attached by law or wisdom. But the new laissez-faire doctrine argued that laborers should be free to decide where they would work, and that men of unusual capacity should be free to enter the field of business.

Here the agrarian and handicraft regime of self-subsistence was carried out by driving bargains in areas where producers were little aware of the value of their goods.

\[\text{Nourse, op. cit., p. 30.}\]
The coming of the industrial revolution and the factory system greatly altered this situation. Exploitation became one of the country's greatest assets. Expanding production in new lines followed the discovery of many new processes. The philosophy here was an open door to capitalist, employer, worker, and consumer, if the doctrine was to work fairly.

Under free bargaining the laborer would get his share, the employer his share by following his own self-interest by purchasing where he could get the best prices and would share in expanding community income by discovering new ways of cheapening or improving his product. He reasoned that he could not be ground between labor and consumer because he would have to have a living wage for his personal and property services. Many small employers or business men did go under, and only the large capital owner was able to survive financially.

In the early days America bristled briskly with a new freedom won from the war with England, and was settling the "disordered household" to suit its democratic pattern or tastes.

Everywhere new ways were feverishly at work transforming the countryside in their particular spheres.

In the South, a new order was rising over the ruins of the plantation system.
In the East an expanding factory economy was weaving a new pattern of industrial life. In the Middle Border a new type of agriculture was being developed from the use of machines to the fertile soil of the prairies. And all over the land a network of railroads was being built that would draw the farthest outposts into the union of states. Yet there were two diverse worlds on the map of continental America. Agricultural America was two and a half centuries old in experience and was a definitely decentralized world, democratic, individualistic, and suspicious. Industrial America, characterized by only a few decades of experimentation, was a centralized world, capitalistic, feudal, and ambitious. The one was a decaying order, the other was a rising order, and friction arose immediately and in the struggle the industrial order has won the conflict.

Continental America was peculiarly half-frontier, half-settled country. As the development moved west and south, running through Minnesota, Nebraska, and Kansas, then leaping over the Indian Territory and running into Texas, much land remained unused. On toward the Rocky Mountains were plains, vast, gray, and waste.

There were only scattered settlements in all this territory -- Denver, Salt Lake City, Sacramento, San Francisco, Portland, and Seattle. A few mining camps dotted the landscape, and here and there were a few isolated homesteads.
On the prairies from Mexico to Canada were wild buffalo and hostile Indians.

The time, forty years, that lay between the California gold rush and the Oklahoma land rush in 1899, was the most reckless period in our history, and at the same time witnessed the most rapid development. So the manufacturers in the East profited most because they furnished the materials for the western exploitation. The coal and oil industries developed rapidly in Pennsylvania and Ohio. Copper and iron in Michigan, gold, silver, lumber, and fisheries of the Pacific coast provided limitless raw materials.

The bankers had come into veritable control of liquid wealth of the nation and the industrialists had learned to use machinery. Up to this time the potential resources of the continent had never been surveyed. There was every kind of exploitation going on. The Bessemer process turned iron into steel and Pittsburg became the center of steel rails for railroads. Farm implements, the reaper and binder, the plow and threshing machine, created agriculture on a large scale. The natural grazing lands provided food for thousands of sheep, cattle, and hogs. With land values rising, many made money on unearned increments, and booms on land in different places became a common way of making money. The social philosophy was pre-emption, exploitation, and progress. The immediate business was to
dispossess the government of its rich holdings.

Lands in possession of the government were idle, waste, untaxed, and profitless; in private hands they would be developed to provide work, pay taxes, and support schools and other social and governmental services. It was a simple philosophy at that time and suited the individualism of that age.

Mark Twain dubbed it a "gilded age," defined in the title of one of his books. Vernon Louis Parrington called it the most picturesque generation in our history.

After a Civil War a strange new America looked out confidently on the situation she found herself in, and demanded a fair race and no favors for freedom and opportunity. The most talked-of men amassing fortunes were Jay Gould, the Vanderbilts, the Russell Sages, the Fisks, and Barnum with his "big show"; Mark Hanna, the Rockefellers, Andrew Carnegie; the Pillsbury and Washburn flour companies.

The huge wastefulness of our frontier was everywhere.

Philosophy was changing fast. Where freedom was the fittest aim, individualism became the password, and soon individualism became the inalienable right to pre-empt, to exploit, and to squander. The idealism of the forties became the romanticism of the fifties. The heritage of Jeffersonianism and the French enlightenment had fallen from any concern about social conscience or civilization or democracy.
The eighteenth century was more or less static, but the nineteenth was progressive, embracing whatever was advantageous, pragmatic, opportunist. It fitted in with a frontier psychology. Out of this psychology and philosophy came a transformation to capitalism.

The arguments from the economists of philosophy, from Horace Greeley to the present time, were toward the plain people. Henry Carey’s were directed to the more intelligent class. Both had abandoned the laissez-faire position for a national economy, and in the late fifties Carey popularized the doctrine of natural harmony of interests between manufacturers and agriculturists.

Walt Whitman in his philosophy made clear to America her present failure in the great adventure -- how far she had fallen short, so far, of any adequate democratic reality, and to mark out again the path to the Canaan of democratic hopes, reviving the early hopes of the enlightenment philosophy, and drawing in cooler colors the democratic Utopia dreamed of for one hundred years. Whitman thought his mission in life to be both critic and prophet and to that end he devoted about forty years of his life. He declared America was not a democracy, but a shoddy bourgeois capitalistic society shot through with cant and with hypocrisy and every other meanness. No one has so scathingly criticized the practices of our government.
Mark Twain in his writings unconsciously portrayed the crudity, want of knowledge, discipline, historical perspective, and lack of intellectual capacity to deal with the complexities of a world passing through the twin revolutions of industrialism and science.

Henry C. Carey was an advocate in his philosophy of protection of manufacturers. He and Horace Greeley tried to convince America that subsidies were necessary and of common benefit. In these years, the manufacturer was dependent upon the banker so that industrialism was held back. They advocated the issuing of an independent national currency for America, and not having anything to do with currency abroad; but backed by people of America and with this change came two political tendencies -- democracy and plutocracy.

Theodore Woolsey's philosophy was against "natural rights" and rejected the principles of laissez-faire which Mills and Spencer advocated.

Woolsey said the collectivist doctrine was growing and in his thesis on political theory he denounced in the most bitter terms the communist-anarchist-socialist arguments.

Parrington thinks while the academic economists were working on a new capitalistic theory, Henry George took the side against monopoly of natural resources. Labor and capital are but different forms of the same thing, human
exertion. He also proposed a return to society of social values, removal of indirect taxation from the back of productive labor.

George Curtis was opposed to all tariffs, grants, and subsidies. He was rather in favor of a wide application of laissez-faire.

Godkins' philosophy was a doctrine of the greatest happiness to the greatest number in the ultimate social objective which could be obtained only by the completest liberty under the sway of reason and justice. But he advocated that government get out of protective subsidy, improvement and development of business.

The political novel and the economic novel began to influence thought by what today is called propaganda. There were exaggerated statements and misrepresentations of all kinds.

Then the sociological novel came into being, such as To Have and to Hold, a novel of suffrage propaganda, and Republicans started the significant movement of progressivism. Such writers as Winston Churchill, Elliott Flowers, and Mr. Crew were most notable.

During the "gilded age" the agrarian revolt against capitalism developed, but since no help came from the government, the rural population began organizing their own clubs and during 1896 Populism became the controlling
sentiment in the Democratic party. Another application of laissez-faire to the problem of currency was apparent. There were few yet who questioned the ultimacy of democracy as a political system, nor its adequacy to all social needs. But the laissez-faire principle that had proved so useful in the earlier struggles against aristocratic paternalism had become a shield and buckler for the plutocracy that was developing from the freedoms of "let-alone."

The conclusion that wealth should belong to the one who produces it is an economic deduction of elementary ethics. Cooperation will take the place of competition; production and distribution for the common well-being will destroy the malevolent rule of rent, interest, and profit which has so long held the world in poverty.

But with the swift centralizing of economics in the late eighties and nineties, the traditional philosophy of dispersion was fast disappearing. The tragedy of naturalism lies in the disintegration and the pity or irony with which we contemplate man and his fate in our world. The two most characteristic qualities of the American temper are puritanism and optimism. Our belief in the supremacy of the moral law, and the conviction of this being a good world that man shapes to his will are the fundamental premises, respectively, or puritanism and optimism. One is derived from the old English philosophy
and the other is a product of new-world economics -- a de-centralized society.

Determinism has developed as a result of social pressure on the individual. The social complexity of life today has brought coercive regimentation by forces too strong to be contended against. These complexities arise from

2. The great city reduces the individual to a unit as Standardization.
3. Centralization of wealth is creating a caste regimentation.
4. A mechanistic psychology. . . . Individualism is giving way to regimentation, caste standardization. Optimism is gone; pessimism is on the horizon coming up. Sidney Lanier attacks industrialism as a deadly blight on life and civilization. Sinclair Lewis is still an exponent of the Enlightenment age and slaps hard at the shortcomings of our industrial order.
5. The philosophies dealing with governmental affairs from 1917 to 1924 include a resurgence of naturalism inspired by psychology rather than economics as set by Sherwood Anderson.
6. A new romanticism seeking beauty as a defense against reality and turning to irony was portrayed by James Branch Cabell.
7. A new criticism, a revolt of the young intellectuals against the dominant middle class, its Puritanism, Victorianism, and acquisitive ideals, is expressed in Sinclair Lewis's writings.4

William Allen White believed in two major ideas:

"(1) excellence of village life and (2) fear of industrialism destroying the excellence of western village life."5

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4Ibid., p. 327.  
5Ibid., p. 374.
CHAPTER III

THE OPERATION OF LAISSEZ-FAIRE IN
THE ECONOMIC PROCESSES

England was the mother of the industrial revolution, laissez-faire, and the long-whiskered classical economists. The doctrine of laissez-faire was formulated in the early stages of the industrial revolution by responsible philosophers and economists who endeavored the task of shaping the economic conditions of that time in terms of laissez-faire.

The philosophers and the people had made use of the "natural" freedom which had been handed down from the Greeks who, in their study, had made distinction between "natural" and "conventional" freedom.

Most pioneers thrived on this policy, especially if they were willing to work. Our virgin forests, our mines, our vast potentials for production of raw materials, as well as our fertile lands, were utilized by our population without regard for conservation for a future time. It was a case of "getting all you can while you may." And scores of individuals did just that. Not with the idea of helping others, but to get ahead. It is true that many families
took care of their dependent members as they grew too old, or became helpless through misfortune. But their main object was making money, or amassing security for themselves and their families.

The laws in most of the states were very lenient with their requirements and charters, and it made it very easy for one to go into business.

Another basic belief was that this principle of democracy carried over into the philosophy of economic democracy, because many believed that the economic organization was "of the people, by the people, and for the people," as President Lincoln voiced it.

Adam Smith in his The Wealth of Nations says: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interests."¹

The early writers did not see any interest conflict between the philosophy of free enterprise for the economically liberated individual workers and free commercial or industrial enterprise for the capitalist employers.

Adam Smith wrote:

The natural effort of every individual to better his own condition, when suffered to exert it with freedom and security, is so powerful a principle that it alone, and without any assistance, is not only capable of carrying on the society to wealth and

¹Adam Smith, The Wealth of Nations, p. 46.
prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often encumbers its operation.\textsuperscript{2}

For a long time now America has stood for the life and mind of the individual, personal satisfactions, purposes, and rights to dominate the scene. In medieval civilization the principle of authority ruled, and primacy of religion was paramount. In fact, religion dominated the arts of painting, sculpturing, music, and architecture. Then even the growing of corn and other raw materials, buying and selling, numbers of men engaged in any one occupation, prices, and many other things were under the control of guilds or corporations of town or city. This was security assuring enough of the necessities for life, and labor of its inhabitants. The church was the last word, and economic individualism which came at a later date had not been born.

Under the modern system of "natural" liberty, each major human interest became autonomous and independent.

The literature and art of the Renaissance show abundance of aesthetic treasures found in nature and in life far removed from religious themes. The policy of mercantilism, the duty of the state to foster and protect manufacture and trade, replaces the policy of control by local guild and by church. The doctrine is summarized by Nourse as follows:

\textsuperscript{2}Tbid.
(1) as to government, let its activities in the field of business be limited to the very minimum necessary for the maintenance of property rights and peaceful life, (2) as to business, let the system of private capitalism grow naturally under free enterprise, and the law of supply and demand will operate automatically to establish the right prices.\(^3\)

Commodity and service prices will reflect the lower costs resulting from progress in technique and organization.

There is little fault to find with the logic of classic free enterprise and laissez-faire in the simplified situation which it assumed. The cause was the extremely rapid settlement of new lands and exploitation of their virgin resources, and, too, there was an extensive expansion in the field of mechanical invention and scientific discovery which afforded economic opportunity. However, it took people from the farms and reallocated them into industrial and commercial centers. This made the production of raw materials slow up.

Capitalist leadership grew by what it fed on — complete freedom of business enterprise. But this freedom came, in time, to trench the domain of individual enterprise. They saw a large domain in the business corporation which actually controls the government itself at times because it is such a powerful combination of manpower and production. Corporate enterprise has kept foreign enterprise out, too, by high tariffs. And, too, today half-

\(^3\)Nourse, *Price Making in a Democracy*, p. 34.
owned government utilities and some private ones set up another problem for the economists to sweat over.

The "Declaration of Principles" adopted in the 44th Congress of American Industry, December, 1939, makes the statement that

American industry commands the admiration of the civilized world. The contribution that the American industry can make to the national welfare depends upon the preservation of free enterprise and initiative. Laws to protect society from abuses are necessary and desirable but in the public interest it is essential that any law, or any other process affecting industry shall not (so) limit the authority of management as to render it unable to fulfill its responsibilities.4

The laissez-faire movement was in considerable measure a protest against aristocracy, special privilege, and court corruption, which led England to the Liberal-Reform movement and France to the revolution that overthrew the Bourbons. Common men wanted a share in the expanding of commercial and industrial opportunities. The question is whether there are guiding principles or objective criteria for deciding where to draw the line between those things which free economic enterprise can best accomplish through individual efforts, those that can be obtained through group undertaking based on principles of private bargaining, and those which require the complementary organizing and administering facilities of democratic government.

Some of the shortcomings of competition are "(1) that

4Ibid., p. 48.
each individual is best judge of his own interest, (2) that all persons can simultaneously attain that individual interest. ⁵ Neither of these premises is true in the modern business world.

Many large corporations have ceased to be specialized, but are in almost every field as one company was a paint manufacturer in the beginning but now handles fertilizers, rubber goods, plastics, and textiles. The corporation has the potential ability to enter many underlying fields, so that it shall not itself become a victim of a monopolistic situation. One of the excuses for corporations was for the elimination of "the wastes of competition."

Paul G. Hoffman said in his address before the American Petroleum Institute on November 15, 1939:

We should fight against any effort of the government to help us make profits -- that's our job. We should fight to the death against legislation which would take competition out of the competitive system, for in free competition lies the force to lower costs and expand markets. The N. R. A. was an experiment in fascist control of business. ⁶

This philosophy that we must devise workable relations of free enterprise and contracts through individual and group bargaining under which all individuals may most effectively apply their talents in joint enterprise, would attain the greatest wealth for every one. Planned economy

⁵Ibid., p. 57.

⁶Paul G. Hoffman, Address before the American Petroleum Institute, November 15, 1939, quoted by Mourse, op. cit., p. 72.
under authoritarian government seeks to attain similar goals of public well-being without the mediation of free business competition. If we are to preserve private enterprise on the plane of industrial techniques to which we have evolved, we must perfect and demonstrate its ability to attain the goal of full and efficient use of natural resources under industrial competition, national prosperity must be cooperatively engineered, and its cooperative achievement allowed to subdivide into the welfare of firms and individuals.
CHAPTER IV

OPERATION OF THE ECONOMY THAT SHOWS THE
WEAKNESSES OF LAISSEZ-FAIRE

There are three types of income, but "collective bargaining" is the process by which the majority get their income. This is the process by which wages and salaries are arrived at. Profit falls into another class of income commonly referred to as "residual." It constitutes what is left after the many-sided bargains with workers, landowners, lenders, and managers have been completed and payments stipulated under these contracts have been made. A third type of financial return is "contingent" income. It is a premium or bonus added to contracts or wages, interest, and even rent.

Interest and dividends consist of two orders: (1) loan capital and (2) equity capital. The first is "hired" at contract rates of interest. The second, equity capital, participates in the ultimate fortunes of the company. Since this kind of capital is linked to the "venture capital," there may be negative profits. A profit and loss system is thus operative.¹

In the bonus and profit-sharing plan the philosophy is the same, but here the wage-earner does not assume the risk of loss encountered by all businesses. Under the owner-management plan the proprietor supplied both capital and active direction of the business. Now under corporate organization the plans and decisions are made largely by professional (salaried) managers. So in motivation there are two kinds of profits in business practice. The first are "freak" causal, or fortuitous. Second are those contrived as scientific and functional -- the distinctive fruits of enterprise.

The combination of free enterprise in "the spirit of '76" and business strategy in modern industrial manner puts major stress on the time perspective in which choices are made and policies adjusted. All this involves a reinter- pretation of profit motive. But it does not mean its aban- donment.

Our statesmen need to decide how fast should the flow of premium be passed on to workers and consumers. Secondly, what scheme of allocation through distributive devices should such dissemination take place?

We note that free enterprise and its philosophy start as a demand for self-direction and personal income made by men freed from slavery or feudal bondage. As society passes on to an advanced stage of corporate organization, this becomes a three-cornered struggle between the individual,
the business institution, and the state. Is there no mutual ground upon which these three warring philosophies may agree? Two common requirements or objectives on which nearly all people would agree are, that the American way must be one that produces maximum product or material well-being, and that it must be voluntary -- the individual must be free to make his own choices, where he will live, how much work he will do, and what kind of goods and services he will exchange for his income.

In our search for the principles through whose application free enterprise can most effectively approach the goal of national welfare as maximum mutually consistent prosperity of its citizens, three analyses are to be followed: first, the technological requirements within which our economic system must operate; second, the complex system of interrelated prices under which technological activities are organized; and third, the techno-economic process should be related to the organizational setting provided by a democratic philosophy of life. Lincoln said: "Democracy is an organization of a producing society for self-direction, through competitively selected experts, in the interest of all consumers."2

Modifications have been necessary since the entrance of the industrial age and there will have to be more if the system is to serve all humanity. Edwin G. Nourse says

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2Nourse, op. cit., p. 154.
that "with modification of price relations so as to promote rather than retard maximum activity of productive resources and satisfaction of consumption wants, is the answer."3

Stuart Chase intimates that the greatest spending of the rich is only nine per cent of their income, hence their money grows much faster than they can spend it. He thinks the capitalistic formula has run out. He insists capital-ism has run its course. That it has collapsed, is his contention. Everything worked favorably for the early business man, for the "economy of scarcity" was the basis from which capital worked. And the cost of production which economists and accountants have worked over for years adds up to the energy consumed in making the article or rendering the service. The early enterpriser was technician, manager, financier, all in one. The corporation came into being about 1880, and the enterpriser became a split personality, part of him was in production, part in finance. And the investment banker rose about that time with even a louder voice. The actual philosophy at the present time is more money can be made by manipulating the securities which represent tangible property than in manipulation of the tangible property of two hundred corporations run by two thousand men. Chase's idea is that we all, regardless of economic or productive status or function, are poor

3Ibid., pp. 143-144.
Three philosophical observations are made: (1) technology has demanded increase in government services; (2) political frameworks have changed, making county and state static or without very much authority; and (3) technology has created an over-supply in every industrial nation; hence central government has been pushed into control. More government in business and more business in government, seems to be the current trend, and Herbert Hoover fought it with a losing hand. His Congress voted into being the Federal Farm Board, the Reconstruction Finance Corporation, and Boulder Dam. Technology was dictating to the state. Whatever the philosophies of the state, it had to obey. Hoover did so grudgingly, while Roosevelt obeyed with alacrity and went the full way and far past anyone's idea of what would happen. According to Charles Merriam, federal government activities have fallen into six main heads: (1) services to business, agriculture, and labor; (2) public welfare -- education, health, recreation, relief; (3) highways and communication; (4) war; (5) regulation of morals -- gambling, vice, censorship, crime, liquor; and (6) centralized control of industrial functions -- interests furthered by means of interstate commerce commissions, shipping boards, federal trade commissions, etc. Then state and

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city governments have added their share of similar organiza-
tions.

When technology produced twenty-five million cars to run, somebody had to provide highways. The "somebody" was always the government. You cannot blindly loose a forty-
fold increase in energy per capita into a social organism without hurting some people, and confusing many more. The philosophy of recent social trends is all toward a central-
ized government. As David Lilienthal points out:

. . . . the utilities have regulated the regulators; Stuart Chase's idea is to call a Constitutional Convention and modernize the present Constitution to fit the needs of today. His eighteen technolo-
gical imperatives are about: (1) capacity opera-
tion of its plant, on balanced load principle, (2) an unhampered flow of goods to consumers involving mini-
mum standard of living regardless of work performed if no work is available, (3) the elimination of waste, restriction and private monopoly, as methods of maintaining prices, (4) conservation of natural resources consistent with existing technological knowledge, maintain adequate supplies of raw materi-
als for calculable future, (5) employment of a de-
creasing number of man hours in industrial produc-
tion, (6) encouragement of research and fairly high obsolescence rate for plant and processes; no more suppressed inventions, no corporate patent monopolies, (7) the capital goods sector to grow only as technolog-
ological improvement or mass purchasing power de-
mands, (8) a one-to-one relationship between the growth of physical production and growth of debt; in the long run, no debt can be serviced which compounds faster than physical production, (9) a sharp dis-
tinction between use, property and industrial fixed assets; the latter must be socially controlled in that the units are no longer independent enterprises, but inter-lock one with another, (10) economic decen-
tralization; the end of megalopolis because it is too wasteful a unit to support; the liquidation of the distinction between city-man and country-man, (11) the industrialization of most agricultural staples, on a
quantity production basis and a declining number of man-hours for all, (12) shorter working hours for all, (13) a wide extension of social services and public works to absorb those inevitably to be displaced from industry, agriculture and the parasitic trades, (14) the continuation of industrial specialization through decentralization may be expected to simplify it somewhat; the final form in the future seems to be one flexible, far-flung electric machine, (15) no narrow economic nationalism; the plant demands essential raw materials on a reasonable exchange basis from all over the world, (16) revised and simplified political forms, the scrapping of outworn political boundaries and of constitutional checks and balances where issues involved are technical, (17) centralization of government; the over-head planning and control of economic activity. In North America such planning to satisfy technology should be continental rather than just national. For example, let Canada distribute power over an equal radius on both sides of the border, (18) finally, and exceedingly important, abundance demands no compromise. It will not operate at half speed. It will not allow retreat to earlier levels and stabilization there. Pharaoh did not tell the Nile what to do; the Nile told Pharaoh what to do. Industrial discipline must be accepted -- all of it or it must be renounced. "The only retreat," says Stuart Chase, "is back one hundred years to the Economy of Scarcity." 45

Malthus' Essay on Population shows that population increases faster than increase in food supplies.

Problem two concerning the individual versus society contains questions of interpreting and evaluating different directions of human interest rather than reconciling separate and opposite forces. Problem three is individual initiative versus collective security. So we have three different attitudes, economic individualism, economic collectivism, and economic liberalism.

5Ibid., pp. 308-309.
"The atmosphere of the new world was dynamic, the spirit of contrivance was in the land; men like Benjamin Franklin and Thomas Jefferson were not above tinkering in projects."\(^6\) In the Constitution these men gave the bugle call for the show which invention and discovery were about to put on, and in the pamphlet, *Concentration of Economic power*, prepared by a Senate investigation committee, it is shown that a machine is as good as a great many men, and that a division of labor cleared the way for the coming of machines. Since the electric spark and the vacuum tube, the dynamo, and the internal combustion engine came into being, the older arts have atrophied. Physics, chemistry, biology, bacteriology, and other fields have been enlisted in the service of invention, and so advanced science has kept technology on the run. Hardly a method of production has been able to stand out against new processes ever being discovered.

As a result, access to the store of useful knowledge has become a requisite of free enterprise. It is a rare invention that lives out its statutory period of protection these days. A concern must keep up its technical processes to date or fall behind in the competitive race.

Is the patent system doing its job with the intent of the Constitution? We know very little of the early

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inventions such as fire, the hammer, the axe, the basket, and the stone jug, yet we know that they have existed since the earliest records of history. So a primitive folk impresses its own character upon its arts.

"The term 'Industrial Revolution' is shorthand for the myriads of influences which deprived the craftsman of his industrial throne." It gathered momentum in the last of the eighteenth century and still goes rushing on through decades and into remote lands. As ideas are fused, novelty gets endowed with degree and power. The microphone, the electric circuit, the vacuum tube are so conscripted as to bring a performance of a symphony to all parts of the world. This technology imported to the victrola made unnecessary the large horn and big vibrating needle. And the technicolor in motion picture industries today was a step abridged from the snapshot. A culture like ours is fertile to invention; a host of individuals very differently situated are exposed to the urge of discovery and invention.

Today the pooling of inventions has become a common practice to serve the public. If there were no pooling of patents, the modern receiving sets, the airplane, and many other devices would be mere ideals just out of reach because of the hundred or more separate inventions, each rigidly protected and safeguarded by its inventors.

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7Ibid., p. 6.
The telephone once was a toy, but today it is the stock-in-trade of the world's largest non-banking corporation. But when a business enterprise fails to pay and give the inventor his just reward, they get caught in a court struggle that is sometimes very hazardous.

As private interests harnessed patents to their own service, the government remained inactive. Today we need a conscious policy to appoint for the patent its proper place in the national economy. The corporation has become a competitor against the natural person in seeking grants of patents. The corporations hire men to invent. Also corporations lease inventions to other corporations until all is a network of legal documents or instruments. Inventors assign patents to corporations; they lease them to other corporations, hence the legal documents which the latter bring into being are of as much concern to the public as they are to the persons who sign them. So it follows that all assignments, leases, and documents correlative thereto, should be public records. They should be filed with the Federal Trade Commission, where they could be consulted at any time. The pooling of patents is another intricate question. Monopolies often develop from it. So the feasible way out is to accept the pool but place it under public authority. At present a concern often produces an invention and secures a patent as a ticket of admission into a pool. A collective discipline replaces freedom of
the individual to follow whatever trail he desires. The conversion of limited privileges into immunities has become a major legal enterprise. The government is seeking a policy for technology in regard to patents. If the common good is to be served, an economic scarcity must give way to one of abundance. The imprisonment of invention and production spells doom.
CHAPTER V

MODIFICATIONS OF LAISSEZ-FAIRE THAT ARE TAKING PLACE IN OUR ECONOMY TODAY

We have made considerable progress in security in some lines and in some ways. Often, though, what seems real security is many times a boomerang and the economic effect is just the opposite of what we had expected. Social security is in some aspects just, and helps older people to have help financially when they need it. Many abuses have grown out of it, however, because social security pays so much for each child born until the children reach the age of maturity, and this is a menace to the country because the poorer uneducated parents and lazy trash are propagating the large families of tomorrow. And many are drawing this money for children who do not need it at all. I have a cousin who is worth thousands of dollars and owns a home, much rent property, and a large farm, yet she drew the maximum amount allotted by the government until these children finished high school or were eighteen years of age. Negroes and poor whites are raising families this way, too, for a child born each year brings an income to them of two hundred
and sixteen dollars a year. Certainly economic America should investigate and remedy such misuse of taxpayers' money.

John Dewey thinks that three social trends have developed with the advent of machine technology: (1) advancing economic productivity (property), (2) lagging social invention, and (3) lagging popular consent (propaganda).

Lee thinks the foundations of American democracy have been destroyed, because forty-eight million farmers today are living in America, as against ninety per cent of the nation's total population in Colonial days. Forty per cent of these farmers today are tenants and forty per cent operate farms which are mortgaged.

The article "Free Enterprise" written by H. J. Reinhart, vice-president of the Frank Adams Electric Company, St. Louis, Missouri, and reprinted in The Dallas Electrical Contractor in August, 1945, gives an over-all view of what "free enterprise" should be to every citizen in the United States:

FREE ENTERPRISE is an order of society wherein free men enjoy opportunity to accomplish a worthwhile objective in life. Under this system, they can exercise their inalienable rights to work for whom they please, and to the extent that best suits their individual wishes; to worship as they see fit; and to express freely their thoughts and ideas in words and deeds, so long as they do not seriously interfere with or suppress the exercise of similar rights on the part of their fellow men.

Under a free-enterprise system, there must be incentive for the individual to work a little harder, to make sacrifices, if necessary, to accomplish goals
set for himself, with the possibilities of reward in the shape of improving his station in life. The free-enterprise system has been called the American system, because it has been through the use of the incentive system that all of our great institutions have been developed. As a result, our citizenship has enjoyed the highest standard of living of any people on the face of the earth.

It should be noted here, however, that our system of society has not by any means reached the state of perfection. The free-enterprise system, as we understand it today, has not been employed to the extent of its fullest possibilities. In industry today, in far too many cases, the very freedom of action on the part of management to develop its ideas to the fullest extent has been denied the rank and file of workers, with the result that the greatest over-all benefits to those industries, and to the general public as well, have not been attained.

Management has, perhaps, been too selfish or too shortsighted as far as public interest is concerned. Only in recent years has the matter of public relations been recognized as of real importance. A little analysis readily shows that the public-relations problem is really at bottom a matter of employer-employee relations, for after all, who makes up a large share of the so-called public? Are not your employees my public, and vice versa?

When we recognize this fact, the matter of just and equitable compensation for meritorious service looms as a necessity or ultimate and continued success of business enterprise taken as a whole. When the incentive system of compensation is effective down to the lowliest employee, then, and only then, can maximum results be achieved.

Since the interest of both management and labor should be identical, it is foolish that these two groups should be divided into two hostile camps, each assuming, erroneously, that the best interest of the one is detrimental to the other. That this idea is false has been positively proven by a few industrialists who have operated on a full incentive compensation plan.

There are those amongst us today who would substitute a regimented economy for our American free-enterprise incentive system on the assumption that the individual citizen would thus be protected by the state against the aggression of a minority group of selfish individuals that control business -- big business as
they call it. It is not recognized by the advocates of this ideology, however, that this protection must immediately be paid for by the abandonment of individual rights and liberties to a very great and ever increasing extent. If we would be slaves in the end, what does it matter after all who the masters are? It is unbelievable that our citizenship should accept this order of society if they fully understand its final meaning.

The individual loves his liberties to the extent that he is willing to lay down his life, if necessary, in order that posterity might continue to enjoy the freedoms that our forefathers handed down to us. But the greatest of all freedoms that the individual enjoys is the freedom of opportunity to accomplish a worthwhile objective. This freedom we must preserve at all cost. If the doctrine of free enterprise is properly applied by enlightened and intelligent management, we can preserve freedom of opportunity. Will management have the wisdom and foresight to do this job?

Through the ages the individual has struggled to free himself from slavery of one form or another. The pattern of past civilizations, such as the Grecian or the Roman, glorious though they might have been, will not suffice, for under these the great majority of men were not free men but abject slaves. Men will not tolerate a caste system of society where the masses have but one opportunity -- the opportunity to continue to be slaves.

The American free-enterprise incentive system faces a real challenge. Will it survive? It depends on the wisdom of men. If it has not produced men of sufficient understanding, it will fail because of its own shortcomings in this respect.¹

"A great oil magnate who rose from poverty was much impressed at an early age by the phenomenon of interest, and this early impression had a great deal to do with shaping his career."² The boy had two uncles; the one did manual labor for a living, whereas the other spent his time


in gentlemanly leisure. The boy asked his parents why the second uncle did not have to work, and was told that he had plenty of dollars working for him. He had so much interest on capital investment that his income was in excess of what he needed for a living.

The story of the two uncles shows the piquant and salient fact about interest, that it is the greatest single cause of economic inequality in the modern organization of society. Of course, there are differences in native ability, environment, and training, but the cause of causes is economic interest and inheritance.

The sources of income come under three heads, namely:

(a) wages received for services, (b) the prices received for land and commodities they sell, (c) the quantity of land, labor and commodities they own, and (d) the rate of appreciation of (a), (b), and (c). 3

The difference in rate of profit is the greatest factor, because a large fortune may be dissipated into a negative one by a positive rate becoming a negative one. The rate of profit multiplied by the amount of capital gives profit in dollars per year.

Just why private capitalism is the basis of the modern leisure class is because wealth is that part of the value of every good which is just coming into being by virtue of its sale at a profit.

3Ibid., p. 195.
There are two ways of looking at interest; one is, paying interest as one would pay rent or the grocery bill. The other is the attitude that one who takes interest is "dishonest," as dollars do not have "offspring and bear much fruit." Aristotle, who wrote nearly three hundred years before Christ, thought slavery was entirely "natural," but he denounced payment for the use of money since money once borrowed must be paid back with interest, and dollars you borrowed did not multiply while you had them.

Later the reverse was true -- slavery was unnatural, and private receipts of interest were "natural."

Today it seems as if the pendulum were swinging away from private enterprise or capitalism, toward fascism and communism, the reversion to respectability of forced labor, and the decline of a leisure class based on a competitively established return to capital.

Interest is the fundamental paradox of an exchange economy. For instance, if members of a pool or "trust" lower production to raise prices, it may enrich them, but if all producers did this, it would deplete their income.

Contractual Interest Versus Economic Interest

Contractual interest is a sum of money paid by one individual (or corporation) to another for use of money over

\[4\] Ibid., p. 2.
a given period of time. It arises from a loan contract, whether promissory note, bill of acceptance, a mortgage, or debenture bond. The difference between contractual interest and contractual discount is the difference between payment of a sum in addition to the principal at maturity and the deduction of a certain amount from the face value of the principal in advance.

Economic interest includes net income earned by all capital, whether borrowed or owned. The percentage rates have a relationship that differs greatly in one respect. The economic rate is an average of various rates of net return to capital at a given time, while contractual rate of interest is the average rate of interest paid on loans at a given time. Net return is the difference between gross and production, including cost of operating, selling, and administrative expenses.

All goods yield an income in one way or another, whether production goods or consumption goods; i. e., a man eating bread sells the energy in his work or service to some enterprise so it is a part of capital. Every dollar received by some one person at a given time must be expended by some other person or persons including corporations and governments. So the rate of saving becomes equal to the difference between society's rate of "income" and its rate of total expenditures. "The greater the positive saving,
the greater the decline in business."\(^5\) "So extreme saving by society as a whole brings a decline in the value of wealth."\(^6\)

Anderson believes that investment and savings are both reflexes of fluctuation in the amount of money in circulation, the one being a positive and direct reflex, while the other is a negative and indirect reflex. Thus saving as a whole by society destroys capital values. The difference between sales and cost, which is profit, is equal to the increase of net worth of total assets.

Profits are completely determined in the long run by the expansion of bank credit, for by such means most of the money supply is created. But, if price level rises as fast as the total money value of wealth, then there is no "real" increase in wealth. In a short run, turn-over is of much shorter period, hence wealth is not constant.

Average wages in the long run are in two classes, "(1) self employed, and (2) wage earners who receive money out of an oral or written contract with their employers."\(^7\) Piece-rate systems have usually proved to be a "snare and a delusion" to employees, because it stimulates them to work much harder for the same pay. The employer may refuse the work if not well done.

Bonus plans are an improvement over the piece system.

\(^5\)Ibid., pp. 48-49. \(^6\)Ibid., pp. 50-51. \(^7\)Ibid., p. 99.
If labor unions only realized it, the organization has little effect upon general levels of wages in the long run, and nil in the short run.

Nature Versus Nurture

The causes of personal inequality of wealth are divided into those arising from environmental circumstances and from differences of innate ability.

Two theories of philosophy concerning inequality are illustrated by physical attributes: height, a hereditary factor, while weight is influenced by diet, habits of exercise, etc. Opportunity is an environmental factor. Wealth is a function not only of present earning capacity as a worker, but also of the interest of capital owned. The facts are wealth relative to distribution is about the same in a monarchy as in a republican state. Russia and France divide their bequests to all the family while Britain gives hers to the oldest son each time, which concentrates wealth in a smaller scope.

The philosophy of maintaining inequality is that, were it to go, initiative would be destroyed and this would lessen total production. On the other hand, if wealth were concentrated in a few families, initiative would strangle for lack of ambition, because of the uselessness of trying to get ahead.

Philosophical remedies are "(a) getting rid of the
unfit by sterilization, (b) better knowledge of birth control, (c) education of young people at the expense of the state. 8

Other remedies are abolition of government control of industrial and commercial monopolies, more taxes on the rich, and public ownership of banks. The idea here is to take away income where it is out of all proportion to the effort expended. Another remedy the author suggests is to purchase and operate all commercial and investment banks.

The Price System in a Capitalistic Economy

1. Arbiter of production and consumption is the price system in a capitalistic economy. Each enterprise finds itself confronted with a framework of prices within which it must conduct its activities. Each business concern decides how much it will produce without regard as to other producers in the same line of goods.

2. The organization of production within the price system is now on the basis of firms or enterprises. 9

The alternative is organizing production through price systems without the use of business enterprise; and wholly without the use of the price system. This would belong to the community or state and their allocation between alternative uses might be planned by or dictated from above by democratic persons, or dictators, or maybe by an army as in Russia. A dictator with an army to back him up can

8 Ibid., p. 227.
9 Norman S. Buchanan, Economics of Corporate Enterprise, p. 10.
do whatever he pleases, and if he be unscrupulous, the country suffers. Why is it necessary in a capitalistic economy that production should be organized on the basis of firms?

Individual Enterprise and the Price System

The business enterprise as a unit of ownership in pursuit of profits is fundamental to the present economic order. An aggregation of assets that is directed toward the making of profits is what we usually have in mind when we use the term.

The differentiation of types of business enterprises on the basis of the kind of competitive situations within which they operate includes pure competition, monopolistic competition, and monopoly.

The different senses in which the term capital is used with reference to the individual enterprise indicate a much narrower problem. Capital is thought of in physical terms, value terms, and money terms.

1. Capital in the sense of capital goods requires the use of land, labor and capital. The enterprise never owns the factor of production — labor.

2. "Real" capital is "man-made" instruments used for further production, such as buildings, machines, tools, materials, semifinished goods, completed products, etc.

3. The capitalized value of capital goods, here the capital of a business enterprise is the sum total of all its assets. An asset is in its broadest sense a source of a valuable service flow.

4. Liquid or loan fund capital is liquid resources, money available for use.10

10Ibid., p. 24.
A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the characters of its creation confer upon it, either expressly or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which they were created. Among the more important are immorality, together with individuality; properties by which a perpetual succession of many persons are considered as the same, and may act as a single individual. They enable a corporation to act or manage its own affairs, and to hold property without the perplexing intricacies, the hazardous and endless necessity of perpetual conveyances for the purpose of transmitting it from hand to hand. It is chiefly for clothing bodies of men, in succession, with these qualities and capacities that corporations were invented and are in use. By these means a perpetual succession of individuals are capable of acting for the promotion of the particular object like one immortal being.

The idea of a corporation is a contract.

Many authors attack the fiction-concession theory of the corporation. The philosophy of the fiction and contract theories is that it does not make any difference about the final legal end of corporations; there seem to be two theories or philosophies of existing corporations -- the "sovereignty," and "fiction-concession" theories of
a corporation. And in some cases and for legal purposes, the corporation wishes to be treated as if it were a person. A corporation owns property in the name that the sovereign has conferred upon it; it has the right to prosecute and defend by legal action in its own name; it is a person in this legal sense, apart and distinct from the shareholders; the debts or assets of a corporation are not the debts or assets of the shareholders; at law the corporation may contract with a shareholder just as if the two were in no way connected; so, also, being a legal person created by a sovereign authority, a corporation may survive the death of all its shareholders, and may only be brought to an end in the manner provided by the statute to which it owes its existence. An important fact is that the states reserve only the power to alter, amend, or repeal corporate laws or charters. Yet the common statutory provision is evidence that people still continue to think of the corporation as a legal personality that exists by reason of a special grant of privilege, a concession, from the sovereign, and what the sovereign has granted, it may also abrogate or take away. A less philosophical expression of certain ideas akin to, if not the same as, those of Gierke regarding the relation between the state and the corporation has come to be known as the "contract" theory. This is supposed to be a contractual arrangement between certain persons for the pursuit of common ends. The ends to be sought
and the intentions of the parties are set forth by the terms of the contract. This type of contract the state may demand for filing for inspection at some designated place. And the state may deny that certain contracts are in keeping with public policy and refuse to recognize them. If one considers the ease and simplicity with which business corporations are brought into existence in the United States at present, one must admit the contract theory comes reasonably close to describing the prevailing practice.

The little investor with probably one per cent of the stock has no voice in the policies of the company. He votes by proxy. Such large corporations tend to dwarf the individual investor.

Relation Between the New and Old Economy

Since the old and the new economy are not organized alike, they cannot work on common ground. So the problem is to make the corporate part and unit into a corporate whole. In a flexible-price economy, price adjustments are spread out through the whole range of prices while in an inflexible-price economy any influence such as inflation or deflation has pressure put upon it to serve the interests of the corporation.

The Russian five-year plan priced commodities at a certain price and all laborers were paid more than was necessary for things they needed at fixed prices, so the money
left over was spent on luxuries, and luxuries they were, because they skyrocketed and that was what Stalin wanted to keep the people drained of any excess of money on hand.

Problems Presented by a Modern Economy

We want to try to have the standard of living which technology makes possible. Elements to watch are supply of money, volume of savings and creation of capital goods, price and production policies of industry, international economic relations, and provision of economic security.

Money in the old economy balanced itself, but price rigidity alters the situation. Savings and the creation of capital goods, savings to make repairs on buildings and machinery, and other types of surplus funds characterize the modern economy as it relates to corporations.

Prices are determined in offices of a corporation and held rigid over a period of time in contrast to traditional ways of bargaining in the market.

In 1932 corporations numbering two hundred huge ones controlled nearly fifty-six per cent of the corporate wealth of the United States. Modern technology with the mammoth organization it demands has substituted large concentrated units for myriad small enterprises. So we have administration in place of bargaining relationships. It now is a limited conception among a few strong units. At least half of the gainfully employed population is engaged
in industries or mass production.

The modern corporation destroys automatic adjustments. For instance, the management of the Aluminum Company of America can control volume of pig aluminum sold, or the price at which it is sold. The disastrous effects of this type of price upon automatic mechanisms of the old economy cannot be over-stated. Laissez-faire claims there can be no over-supply.

So it appears that under modern conditions and modern industry, the profit motive drives corporation executives to make decisions which tend to wreck the soundness of the economic machine from a business standpoint, thus proving disastrous economically. The new economy is a failure in purchasing power because of industrial concentration.

Today there are three economies at work in America: the Adam Smith small-business economy, Marx's factory economy, and modern corporate economy, existing side by side. Corporate economy implies putting the power of control in a few hands. Neither is the factory system ideal, for it keeps workers dependent upon the policies of the factory.

The Modern Economy in Action

The man in the street finds himself unable to realize that the cornerstones of American economic life have changed. He still thinks in terms of "private property, individual initiative, free competition, and private profit."
Traditionally, fifty years ago that was true — a man's business was his own to do with as he pleased. Opportunity was open to everyone. A business unit then was a small workshop, store, farm, ship, shoemaker, etc., each of which was independent and self-directing, hence the doctrine of laissez-faire. Each one vied with the other to make a maximum profit. Then when there was an oversupply of anything, prices dropped, but goods were sold at a lower rate when prices on scarce items went up.

Modern industry has produced a radically different economy from those of laissez-faire. An ever-increasing number of people conduct their economic life under supervision and the coordinating relationship between individuals and groups has shifted from the field of bargaining to that of administration. Our modern economic system has become predominantly an engineering rather than a trading economy. We hear a great deal of "industrial engineers" and "business executives."

The development of the corporation has gone further than the factory system. Could we possibly have coordinating telephone services supplied by 560,000 individuals through buying and selling in the market at flexible prices determined by laws of supply and demand?

The farmer gambles against the price on potatoes for his little crop does not affect the whole market, but thousands raising them do. So supply and demand take care of price. In a corporation the company is
first interested in what it is going to get out of
the venture.

International economic relations were based on
laissez-faire methods and gold standard was the means
of lowering our prices but it raised prices in the
country getting the gold. . .

In the old economy, the family looked after non-
productive members and the aged, or saved for a "rainy
day." In the new economy -- no one wants to provide
for anyone else, but wants the government to take care
of everyone, which is impossible. . .

Why the right amount of money? Because if, un-
der the inflexible economy, any great change in rela-
tions between supply of money and demand for it under
given price conditions has a serious disorganizing
effect or influence. . .

What constitutes money? It is a generalized
ticket to almost anything. It could be goods stored
for future use. It could be hoarded in a bank. Bank
notes and bank deposits constitute about 9/10 of all
the monetary medium. Gold is used only as an inter-
national exchange.

Change in volume of money is dominated by bank
deposits. The local banks today, because of corpora-
tion deposits, have taken away what the federal banks
used to do. The Federal Reserve Banks were originally
built for that. This business is a more or less book-
keeping transaction. There are two methods of bank-
created deposits: extending credit to business and
through buying securities. . .

Belief in the safety of money and the amount
people find it convenient to store in a bank are af-
fected by the volume of business. There are many
ways of liquidation but money is the fastest way. One
can be land poor or furniture poor, . . . but if it
could be turned for cash value or liquidated, that is
the desired end. Positive central control could be
accomplished over the supply of money by: (1) govern-
ment taking over banking system, and (2) banking sys-
tem centralized in private hands, (3) if deposits and
loan functions were split -- deposit function con-
trolled by government and loaning function performed
by individual private banks. Of course there is al-
ways a danger of inflation. Insecurity is always on
the heels of security. . .

Savings could be loaned to put up new buildings
or start a business. . . . There was not too much sav-
ing or spending -- flexible interest rates or flexible
prices that made the adjustment. . .

. . . unbalance of new economy. Main influences
here are: (1) affects of changes in security values
on the tending to save or spend savings, (2) speculation, (3) fluctuations in desire for liquidations, (4) distorting effect of the separation of ownership and control.

How can balance be achieved under modern control or conditions? Only as savings and capital goods creation are maintained in balance can full advantages of modern technology be realized.

Making Industrial Policy

A. Problem -- Administrative decisions have nearly supplanted market mechanism so that the impersonal realm has become industrial policy. Example: Ford, General Motors, Chrysler make policies. The major problem here is to devise effective means of counteracting the restrictive pressures inherent in the new economy. The significance is two-fold -- disproportionately high profits in relation to wages impair the mass market. (2) Disproportionate amounts going to investors to increase the volume of saving. The most saving is done by folks who receive large incomes. Most investors are mere suppliers of capital without significant influence over the affairs of the company that they are investors in.

B. Techniques for making industrial policy.
1. Government ownership. Schools, hospitals, water supply, roads, bridges, etc. Tennessee Valley Authority project.
2. Post offices are examples of price fixing and rigidity.
3. Government control over corporations without owning them.
4. Government could purchase improved industrial policy, as the A. A. A. -- in other words, subsidies.
5. Another method that looks more flattering is: peach canning industry. (1) Price control by total money receipts of all peach growers, (2) profits of peach canners, (3) amount of employment given to labor in picking, packing, transporting peaches, making tin cans, etc., (4) amount of peaches received at wholesale for consumer's dollar. Then key decisions for each industry would vary considerably. Collective bargaining and co-operatives are two other techniques. They are far from democratic.

C. Interests concerned with industrial policy. Government represents all the people and acts in the public interest. But it doesn't work that way. The
consumer wants goods produced of high quality and low price. The industrial workers want volume of employment and wage rates dependent on volume of product. If the two worked together it would function admirably. Because of consumers, the trend is toward co-operatives. Labor's interests are for full steady employment and higher money wages... The ideal solution would be by labor and management having open books. Child labor laws work into the new economy, then the children and old people have to be supported. There is 35% in 1930 under 15, and over 65. There were not producers but consumers. The old economy individual savings and family adjustment fail to be reliable today -- individual savings may not be available when needed or the increase or decrease may conflict with the company's need for more or less spending at a particular time.

Today the family unit only consists of parents and children; in the past from grandfather on down to cousins were a family unit and that way could support the non-productive members. Our economy must embrace all natural resources, saving as much as possible for posterity. Government is in business because the farmer, the business concerns, demanded help in depression. The Bank Act of 1935 made savings up to $5,000 safe for the depositor. The new economy will have to be an organized action.

The ideal way would be to gradually achieve success through gradual means. Will the democratic aims and methods hold under the new conditions? With the great social changes now being wrought by modern democracy and industry, how much bad working of political democracy with its corruption can business stand? Shall democracy respect personality...? Should shared decisions by modern society be the way out, or reliance upon experts to make our decisions for us? If we could cure the rivalry for profits that has diverted attention from public affairs, through politics, could not political efficiency be had? Political democracy seems to lie in the majority vote, but it does not; it is held by minority pressure groups. 11

11 Gardiner C. Means and Caroline F. Ware, Modern Economy in Action, pp. 4-6, 35-115.
An article dealing with the shift in labor policy, published in the United States News on June 29, 1945, states that when Judge Schwellenbach was appointed to the post of Secretary of Labor, he had definite policies in mind. He thought that the Labor Department should be run impartially as a court is run. That would mean hearing facts, checking the law, and dispensing justice accordingly. Heretofore unions have carried their troubles to the White House and ignored Madame Secretary Frances Perkins.

President Truman and Judge Schwellenbach had planned that the Labor Department be a clearing-house for all labor problems. All agencies handling labor problems would be under the Secretary of Labor. There are five divisions or bureaus under the Department of Labor.

The trend toward a strong centralized labor agency signifies a shift in government labor policy. President Truman feels the unions have grown up and should be able to stand on their own feet without relying upon the government for everything. Also another phase of this trend is expressed in legislation introduced by Senators Hatch, Burton, and Boll to make unions accountable or responsible for their acts, as well as employers.

State legislatures enact general laws for business corporations. The early philosophy of corporations, their purposes and objects, was that this certificate which established the corporation should contain all necessary legislation,
since the corporation is a creature of the state sovereign authority and the exact purposes for which special privileges have been granted should be clearly indicated. Secondly, from the shareholders' point of view, those who venture their capital must know the kinds of business and risks they are going to be subjected to.

Other matters included in this certification are the amount of authorized capital stock, the number of shares and amounts subscribed and by whom, and classification of any preferences, priorities, and amount of indebtedness the corporation assumes. And laws of states vary as to the leniency of contracts, so where corporations can have the greatest freedom is where they obtain their charter or certificate.

From Roman times down through medieval, the corporation has been an entity. A corporate enterprise raises funds necessary to bring the proposed venture into existence by offering security contracts for sale to investors. The combination of security contracts which it finds advisable to offer will depend upon the regularity of probable net income, attitude toward control, and aggregate amount of capital to be raised. The aim of a business enterprise is to maximize the total returns to be secured from any given investment.

There are business cycles, and the philosophy of meeting them is to be able to adapt the corporate enterprise to
the general cycle pattern and tend to minimize the harm the cycle can impose on the enterprise.

Inventions and technological improvements in general are frequently responsible for increases in the size of individual enterprises. The investor should have "full disclosure" on all phases of the corporation to which he lends money for investment. Every industry has increased its potential energy forty times as great in the years from 1800 to 1934. A lumberman can fell forty times as many trees in a week, and forty times as many chairs can be made. Porters can transport forty times as many loads of baggage in a day. Stuart Chase's idea is that if we really used this potentiality we could all live with a much higher standard than we do. For we have in our possession exactly forty times the equivalent energy per capita today. Energy, the capacity to do work, is here a living demonstrable reality.

Stuart Chase's philosophy is that if one engineer had control over raw materials, machinery, and trained labor, he could deluge the people with an avalanche of commodities for better standards of living.

The philosophy of Fred Henderson in his Economic Consequences of Power Production is that without any further increase in knowledge of power and technical processes, we would be able to multiply production ten times over.
Buckminster Fuller is still more optimistic and puts figures at 630 times more able than was Adam.

Walter N. Polakov says fifty weeks, each containing four working days of six hours each, making a twenty-four hour week, together with a two-week's vacation, would keep up every survival need.

Harold Rugg in *The Great Technology* estimates a possible living standard between ten and twenty-fold greater than the maximum of 1929 on a sixteen to twenty-hour work week.

Stuart Chase thinks vendability should become serviceability, if the framework of reference could swing from one to the other.

America has many scarcities in the actual presence of abundance.

Walter Lippmann has written in his syndicated newspaper column that a really new thing has come into the world, and he defines this "new thing" as "the invention of invention."

Through our research laboratories such as the Bell Laboratories of the American Telephone and Telegraph Company, much has been done to bring about modern technology. Since the publication of Stuart Chase's book the atom has been split. Atomic energy can now be harnessed up to serve many of man's needs. Up to the year 1930 the individual sought his own security within financial rules. Today
with inflation rampant, what will be the outcome for many?

Uruguay has more comprehensive labor legislation than any other country, yet, is the smallest South American republic. Its laws, which set minimum wages, limit working hours and provide for old-age pensions and vacations with pay, apply to everyone -- industrial workers, government employees, domestic servants and farm hands. These laws also prevent strikes and lockouts by requiring employees and employers to submit their disputes to a local wage council whose members represent labor, management, and the government. Decisions are final and rigidly enforced.\(^\text{12}\)

Canada and thirty-four other countries have a compensation law for low-wage earners. Canada pays five dollars for each child under five years of age and up to eight dollars for children between thirteen and sixteen years of age.

In the article "Keep 'Em Working" by Howard Whitman in Collier's for March 23, 1946, the writer says that management, labor and government are quietly at work toward the goal of keeping workers on the job twelve months a year. Where they have succeeded profits go up, strikes go down, and the communities take a new lease on life.\(^\text{13}\)

The United States Employment Service sent Nathan D. Gordon to Biloxi, Mississippi, to study the case of seasonal fishing. This ended in April. Gordon decided he could tie in fishing and work to employ the fishermen during the summer months by getting work at hotels, golf courses, and new factories. Biloxi is doing its part. Many other cities are following the same example. Several agencies are at

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\(^{13}\)Ibid.
work; private industry, labor unions, and government are all working together on it through the chambers of commerce. The philosophy of this modern economy is to keep all people who want to work employed all the time. The shoe industry through the National Shoe Manufacturers Association in the last few months has taken steps to stop the rise and decline several times a year of booms, and is making new models of shoes every month rather than gorging stores in the spring and fall.

Construction in Wisconsin is being tackled by a firm to test out the feasibility of working through winter months and with a few new tricks the firm accomplished what was thought to be impossible. So they put the workers on a seventy-six-cent basis hourly wage instead of a ninety-cent hourly wage, and at the end of the year the man had averaged twenty per cent higher income than under the former regime. The economist Howard B. Meyers was responsible for the success of this experiment in 1937-1938.

The Hormel plants of the Hormel Packing Company work out their budget a year in advance and workers are paid weekly installments for fifty-two weeks in the year. They have cut operating costs twenty-six per cent the first year, with an additional twelve per cent the second year. Because of this effort to keep all employees busy they were able to bring out "Spam."

Henry L. Nunn, president of the Nunn-Bush Shoe Company,
when he organized the "flexible" wage plan in 1935 and frustrated the efforts of the C. I. O. and the A. F. of L. to organize in his company, was praised by some and denounced by others. "It's not a union, it's a religion," was the comment often heard concerning his plan. "I'm not better than a reactionary employer," Nunn said; "I'm just a little smarter." Nunn is a sincere believer in the working man. He considers himself a partner in the firm, so twenty per cent of the wholesale value of shoes packed is considered as labor cost and placed in a salary fund from which each worker draws his fifty-two weeks' pay checks each year. Hence the flexible wage that varies with the fortunes of the company.

The San Joaquin Valley is another proof that seasonal work can become regularized by a textile concern planning for a mill to use the workers of three counties so that idle hands may be used to make cloth in the slack season.

Brownsville, Texas, has taken up the role of frozen foods with which it carries on a year-round industry. Today Brownsville has plans for four major plants, one for freezing poultry, one vegetables, one processing bananas, pineapples, and cacao nuts for shipment as far as Chicago and New York, and one for sea foods such as oysters and shrimps.

Another new enterprise has been worked out by the Department of Agriculture for migratory workers, keeping

\[\text{\cite{Ibid., p. 19.}}\]
their homes in main living quarters but transporting them to places where labor is needed for the season when it is slack in their own permanent location. So in the place of "Grapes of Wrath" squalor of past years the southern states have worked out a plan whereby labor can have camps such as that in Springdale, Arkansas, which has, under the Farm Security Administration, clean living quarters, a school, clinic, showers, sewing rooms, and a recreation building for one dollar per month.

The Railroad Retirement Board has sent men to California when the ore boats were ice-bound in Lake Superior each winter. Some causes of this unemployment are labor-saving machinery, changing consumer habits, obsolescence of a product, exhaustion of resources. So, new enterprises must fill the gap. In Scranton, Pennsylvania, anthracite coal mines are playing out, having once employed forty thousand men but now using only approximately ten thousand.

There are many more businesses that could be mentioned but the philosophy of it all is to "Keep 'Em Working." The American Management Association in an exhaustive study conducted by Ernest Dale exhorts employers to formulate their own plans for stable employment and to educate others. "Private enterprise is on trial," Says Dale's report. Unless it can find a way or maintain a high volume of employment, it is likely to find itself more and more circumscribed by laws. In the Senate, as reported by the
Congressional Record of February 25, 1946 (XCIX, 166), Senator Morse made the following comment from Henry L. McCarthy's letter: "There is a great need for legislation to check the sinister growth of monopolies." McCarthy is the executive director of the New Council of American Business, Inc., a national organization made up of independent business men who realize that the greatest threat to our individual opportunities for survival and expansion is the growing power of "big business," which has reached monopolistic proportions in nearly every major industry in America. If we are to escape the tragedies of the thirties, small business must be aided by eliminating the threat of monopolistic practices by large corporations, and by the control of already existing monopolies. At the present time less than two per cent of all manufacturing firms employ three-fifths of all manufacturing workers.

McCarthy offers several points for consideration in the bill which is being formulated in the Senate. Among them are the following:

1. American business enterprises would be prohibited from participation in international cartels.
2. Discriminatory freight rates would be eliminated.
3. Financial services for small businesses be provided.
4. More stringent inspection and penalties for violations of the anti-trust laws be applied.
5. Current patent restrictions be modified.
6. Other necessary policies and programs be initiated to compel existing monopolies to act in the public interest.
7. Monopolistic practices occurring among smaller units of business which have banded together in trade associations be prohibited.\textsuperscript{15}

The Senate is also discussing a bill to ban strikes in the nation (1) to provide compulsory arbitration as a last resort and as a substitute for strikes; Uruguay has adopted this and it is being carried out; (2) to prohibit jurisdictional strikes among or between unions; (3) to make unions striking in violation of contracts liable for damages just as corporations are; (4) to change the law so the right to strike does not mean the right to intimidate and force others to stop work; (5) to provide for cooling-off periods so as to calm tempers and enable reason and judgment to enter the picture.

Thatcher, representing the labor unions, of course objected on all points, especially on that referring to the right of labor to strike, as its only means of protection against employers' abuses or exploitation.

Wiley presented the facts that Sweden (which has a very high standard of living) has special tribunals attached to the courts. These tribunals get all the facts and hand down decisions which are respected by labor and management alike.

Helen Gahagan Douglas takes the stand that "collective bargaining is economic democracy and its right to vote is

\textsuperscript{15}Congressional Record, XCIX (February 25, 1946), 166.
political democracy."¹⁶

It is interesting to note that Hon. Roy C. Woodruff of Michigan takes a good slap at Professor Harold Laski, one of England's outstanding economists, who is a Leftist. Woodruff cites Laski the outcome of peoples under the "planned economy" of Hitler and Stalin and even England.

Hon. Hatton Sumners of Texas is known as the "philosopher" of the national House of Representatives, and his article in The Reader's Digest of September, 1943, is food for thought for every true American. He thinks that in weakening states, the whole structure of free government is weakened. Too much work is piled upon the central government, hence it appoints and dumps the intolerable load on bureaus because the states, cities, and counties are not handling their own problems adequately. It is easier to dump them on the federal government. Sumners saw the "handwriting on the wall" back in February, 1925, in his speech addressed to the farmers, entitled "Our Choice -- Decentralization of Government Responsibility, or Government by a Centralized Bureaucracy." He asks if there is anybody in a position to know the facts -- Democrats, Republicans, socialists, or what not -- who does not know that the total of governmental responsibility concentrated at Washington is beyond human capacity to discharge its

functions through any agency susceptible to popular control.

A pamphlet put out by The Economist which is a reprint from The Investment Bankers Association of November 26, 1945, called "A Challenge to America -- Get to Work!" written by Andrew J. Lord, president of Lord, Abbott and Company, Inc., of New York, was widely read. The writer urged America to get to work producing and planning for a maximum production at the earliest possible date. He compared America to a miser with a box full of coins but dressed in shabby clothes, meaning we have the facilities to do with, but are not using them adequately. And he goes on to indicate that there are log-jam strikes; there are pricing regulations which confront many business men with the alternative of running at a loss or not running at all; there are tax laws so complicated and so whimsically interpreted that a "new enterprise" would have to make appropriations for tax and accounting experts first before he could consider wages and tools. To them it is easier to deal with competitors well known to each other. A newcomer would muddy the waters.

If labor could realize that its bargaining is with its customers; finally, they are the ones that pay for labor's and management's selfishness or greed.

Today we have the problem of turning a monied nation into a wealthy nation by spending its capital to maximize
its efficiency, to broaden markets, to develop new products, and to make intensive research to increase its store of useful knowledge.

Today we are in debt 271,000,000,000 dollars, and the only way we can reduce the debt is by healthy enterprise.

The philosophy of the gold standard, to which many economists hold, does not seem to be the answer.

In an article in the Christian Science Monitor of March 19, 1946, Harold Fleming had the following to say:

It is time for economists to do some abstract thinking and evolve some formulas for the present situation which the country can accept.

Why not a staple commodity, such as wheat or steel, as a value-standard instead of gold? There should be a permanent fixed value in terms of the staple.17

Fleming's philosophy would require contraction of credit (a more than balanced budget) whenever demand for single price-fixed standard of value exceeds the available supply and allocations or rationing becomes necessary.

As higher prices of other things actually drew away men, materials, and machinery from production of the staple, contraction would be indicated. As this occurred, the cost-price squeeze on producers of the staple would ease and their production would be stimulated. The effect would be that of a value or reciprocating and stabilizing mechanism. It would work like the way the gold standard would have worked if gold had been an important commercial

staple.

The philosophy underlying interest rates today shows a need to reconvert back to higher rates of interest. The government and borrowers are the only ones who profit by the present low rates of interest; the sower and loaner are penalized on every side. The families who have worked and saved what they thought would be enough to live on during retirement are finding it necessary to turn over to an institution of some sort most of their savings in order to guarantee a safe refuge until death because interest rates are so low for small capital that the returns on it will not support the people who thought they were independent for life in taking care of themselves.

The dollar has depreciated in value over thirty-six per cent since 1939. What is it doing? It is contributing to inflation. Interest rates no longer serve as before their one-time useful function of rationing the supply of credit among borrowers. They are now the function of a politically-minded group which uses this economic tool for social purposes.

Everybody wants something for nothing this day and age, and it has been brought about by so many governmental agencies paying wages that are not deserved or earned, such as W. P. A. and P. W. A. and many other types of government employment.
Philosophically, the most important proposed legislation is the new anti-monopoly bill sponsored by James E. Murray. This bill is intended to "preserve the American system of economic and political democracy and contribute to the maintenance of full production and full employment."

Life's article on C. I. O. strategy in the January 21, 1946, issue shows the un-American tactics of Phillip Murray and his co-workers. "He took the chance of accelerating national inflation. Also to hold the three biggest unions together (steel, auto, and electrical workers) and have them act together."\(^{18}\)

A very pertinent article in the January, 1946, Cosmopolitan Magazine by Paul Schubert, expresses the feelings of most of us during these weeks of strikes and battles between management and labor when the economic status affects all of us. Schubert is a union man himself and yet he thinks that being a citizen first and a "worker" second is more important than taking the selfish side of labor alone. He brings out two important points:

1. There should be some check on the power of workers in "public utilities" -- telephones, telegraphs, bus lines, gas and electric-light companies.

2. We citizens should be just as leery of "labor monopoly" and Big Unionism as we are of capital monopoly.\(^{19}\)

\(^{18}\)Life Magazine, XX (January 21, 1946), 25.

\(^{19}\)Paul Schubert in Cosmopolitan Magazine, January, 1946, p. 44.
Doubtless either type of monopoly mentioned above is fully as dangerous as the other. In fact, labor alone is permitted to threaten the very livelihood and welfare of the nation in order to secure its "rights." The very soul of our institutions lies in our impulse to restrain tyranny in whatsoever form it may appear.

When John L. Lewis or Sidney Hillman or William Green or Phil Murray or Harry Bridges -- labor "robber barons" of our era -- tell us that all we have to do is follow them and we shall be able to wear diamonds, I seem to hear ghosts of past eras of "big shots" who wanted to be dominators of the world.

To control these "robber barons" of labor and to control the power of workers in public utilities, we need new labor laws, and it is up to Congress to give them to us.

Labor, farmers, and business groups are pressure groups and the consumer pays the bill. The philosophy of these groups toward the average citizen is that he is just a sucker who will continue to permit himself to be pushed about as he has done for years past.

Young Sergeant Jameson G. Campagne of the Marine Corps insists that we are looking at a lot of bogus "boogey" men philosophizing on fear, and we should vote these men who are communists out of office everywhere.

Henry A. Wallace made some sane philosophical statements
in a recent speech: "No wage is too high if a worker earns it. Five cents an hour is too high if the worker doesn't earn it."

The economic philosophy of nearly all the returning veterans is one that will prepare one to make a good living in the shortest time possible in a college or university. As Gabriel Frank has stated in an article, there is too much theory and too little practice. He cites Woodbury College in Los Angeles as one cooperating with veterans.

Peter F. Drucker quotes statistics on all wages for the year 1944:

Labor received 62 cents out of every dollar after the obligations to outside suppliers and creditors had been paid. And more than half of the eight cents left went into future expansion from which labor benefits as much as shareholders and owners. The same average holds true of individual business. In other countries it still may be possible to pay higher wages by whittling down the profits of business because in no other country does labor obtain anywhere near the share in business income that it receives in this country.

There are thus only two sources of higher wages. Industry can charge higher prices for its products. Or we can obtain money for higher wages through greater efficiency on the part of labor under which the laborer produces more goods in the same period of work.

In the first category the wage earner would lose what he gained by wages, in the prices as a consumer. The people whose income has not risen together with that of the worker -- the employees on fixed salaries, farmers, small business men, professional men -- would be unable to buy as much as before; thus the demand for the workers' product would go down and with it employment. This lacks just one real source of higher wages: increased productivity. The whole tremendous increase of the standard of living since
the Industrial Revolution has been based on a steady increase in productivity per man-hour, and the worker has received the lion's share from this higher productivity. Real wages -- that is, the amount of goods and services which the worker's wage will buy -- will have actually risen considerably faster than has productivity. In other words, the greater the industrial efficiency, the less will be the shares that go to the middle man and owner.20

The best example is the rayon industry:

Between 1929 and 1941 the productivity of the worker in this industry was increased more than four-fold by technological progress. This made possible a cutting of the rayon price by almost two-thirds, which in turn led to a six-fold increase in the consumption of rayon goods. But during this same period the wages of rayon workers went up two-thirds, and even though the technological progress made it possible for each worker to turn out more than four times as much as he had done in 1929, the industry employed one-third more men than at the peak of the boom.

So, although few industries equalled rayon in technological progress in the years before the war, the general picture is the same: steady increase in productivity per man-hour, resulting in steady cuts in prices and steady increase in the wage rate. Of the twenty-one industries on which the Department of Labor published detailed figures, eleven have managed to continue the increase in productivity right through the war, in two other industries the productivity has remained the same, but in eight others the productivity has greatly decreased. These references do not include the new industries as aircraft nor those which changed completely to new products, as the automobile industry. But we know that man-hours fell sharply -- though less than in Great Britain and Germany.

Wages have gone up at the same time so steeply everywhere throughout industry that costs, today, on manufactured goods are much higher than before the war. In the cement industry the 1944 worker turned out only four-fifths as much cement as before the war, but his income was fifty per cent higher.21

20Peter F. Drucker, "Where Do Wages Come From?" Saturday Evening Post, November 17, 1945, p. 20.

21Ibid.
Actually, it is remarkable that American industry and American labor could be so efficient with a more or less inexperienced labor force. With over-time and night shifts, wages naturally increased to higher rates.

Now the question arises, can we satisfy the unions' demands that the worker receive as much for a forty-hour week as he now receives for a fifty-two hour week? Can we expect productivity to increase so fast per man-hour in the next year as to catch up with a jump of one-third in labor costs?

Harold Laski's article in *Life Magazine* strikes at free enterprise and market economy, saying it means war. He states further:

> We have come to the boundaries of the final dividing line between liberalism and socialism. There is no middle way. Free enterprise and market economy mean war; socialism and planned economy mean peace. All attempts to find a compromise are Satanic illusion.\(^{22}\)

He classes the liberal Americans as "free enterprisers." The only good that can come from Mr. Laski's assertions is to put Americans to thinking, says the editor of this report in *Life*. If he has done that, he has performed a public service, especially if he causes them to think about the word "liberal."

To read William A. Arton's book, *The Liberal Tradition*, is the best way to find out where you stand on this most

vital question. He holds that liberty is the highest political end, but he avoids the pitfall of individualism and insists that a well-ordered community life is indispensable to freedom. He is no friend of laissez-faire, which originally was a liberal principle, until it lost its standing when politics in its name tried to abdicate all responsibility for the economic system.

But out of it all are three tenets of liberal traditions which deny or forget. The first is: every government must acknowledge some "law behind the law," some outside limitation on its own power. There can be no such thing as a good omnipotent government, whether its authority is from force, from God, or from the people. The early Christians asserted this right against the Roman Empire.

The second principle of liberalism is: good ends never justify doubtful means; especially do humanitarian ends never justify restrictions of liberty. The besetting sin of temptation to all democracies to become "welfare states" must be noted. Americans saw at first hand what Huey Long did to the state of Louisiana.

The third principle is an abiding distrust of pure, unaided reason. Liberalism is the architect of the community; conservatism is the guardian. When we look at the different political movements that have been tried by liberals, such as anti-clericalism, laissez-faire, nationalism, positivism, and what not, even Wilsonian internation-
alism, liberal tradition has always remembered, and sometimes just in time to save us, that no political system has a perfect answer. Liberalism, says Orton, is the denial of all absolutes in the realm of political organization.

Laski has said that "we must alter the central principle of our civilization to plan production for community consumption. From that central point or principle alone do there flow the ethical values which can renovate and refresh this civilization."23 The basic difference between Laski's creed and that of a liberal, lies in those very words. The liberal knows that ethical values only flow from the hearts of men who believe in something for society and for themselves far greater than any political or economic system. "Hell is paved with good intentions" defines altruism; therefore when we attempt to make it into a social philosophy, it is time for liberals to be alarmed. So our first task is to remind men that only good individuals, rich or poor, can make a good society.

23Ibid.
CHAPTER VI

SUMMARY

The philosophy in developing private enterprise had to meet the needs of the early settlers in America. In order to do this, many small businesses were developed in the homes, and many trades were begun that had been carried on in the countries from which the people came. The rapid development of our frontiers gave opportunity for private enterprise on larger scales, more and more with each succeeding year. Hence it was not long till larger factories and businesses sprang up in the colonies and spread westward, as pioneers blazed trails and established settlements.

Private enterprise continued to develop by leaps and bounds in America until most of our natural resources were becoming depleted and money or wealth had fallen into the hands of comparatively few families.

Up to this time laissez-faire had prospered and the majority of people who had been ambitious and enterprising had been able to have plenty to raise and support large families. Private enterprise had encouraged inventions of all types, and many authors to write because they were
protected by patent and copyright laws. People who were willing to work lived well, but when the major part of our natural resources was gone, and business had to seek other means of livelihood, then the corporation came into the picture, and manufacturing and trade, because of these conditions, became a very different setup.

This phase took men and women from farms and even children worked in factories. The corporation was not as considerate of human welfare as the small businesses had been under private enterprise of one-man business, or a partnership, where families could live in small towns or on farms and work at their trades. With mass production came mass labor situations, or industrialism.

Companies wanted cheap labor and in close proximity to its work. Many companies built cheap homes for their laborers. As a result of low wages, crowded living quarters, poor safety conditions under which to work about machinery, and with no sanitary conditions, human nature began to revolt and labor unions were formed in self-protection. Because of the abuses and misdeeds of capital or corporations, and because of labor's having attained the upper hand today, America is now confronted with a serious problem or condition. What is the best way out? No one seems to know. At the present writing, the railroads all over the country are on a strike, paralyzing the whole nation and even movements of food and supplies to foreign nations.
Certainly "big business" has brought these conditions upon itself by having used selfish tactics to further its own ends, as many authors have pointed out. Whether the government should take over more power in forcing labor and capital to come to some agreement by the passage of laws by Congress restricting each, and outlawing strikes, is a question that the people of America are going to have to decide soon. The philosophy of big business today is one of selfishness and greed, but is not labor becoming addicted to a similar philosophy? It seems from all research that one set of interests is set against another set of interests, both of which are selfish and disinterested in the welfare of the nation as a whole.

There must be a solution worked out, whereby our nation may go forward. Surely by utilizing what is good in past experiences, the workable knowledge our nation has of past mistakes, and the scientific research of the present and the future, our government should be able to form a pattern which will be acceptable to all factions.
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