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THE AMERICAN WAY

Business Freedom or Government Control?

BY MAXWELL S. STEWART

When did government "interference" with business start?

Does public control over business mean dictatorship?

Is there a middle ground between economic freedom and "regimentation"?

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THE AMERICAN WAY

By MAXWELL S. STEWART

EVERY man under forty-five has had the experience of finding a little yellow postal card from the draft board in his morning mail. Very often the card contained instructions that were inconvenient: orders to report for a physical examination, or for induction into the armed services. However inconvenient these orders may have been, Jim Jones, the average citizen, accepted them without question. He knew that in time of war the government had to give orders. And he knew that if we were to win the war, every citizen had to play his role under the direction of the commander-in-chief. You cannot run a war with everyone acting as a general.

Jim has felt the impact of a similar wartime control in his daily life. He has been told that he must not buy more than so much gasoline for his car. His purchases of meat,

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butter, canned goods, and shoes have likewise been restricted. He has been told that he may receive so much in wages and no more. He has been told how much he may pay for things. Jim and his wife haven't liked all of these rules and regulations, but they have accepted them cheerfully, in the same way they accepted the draft. For they know that the government must direct home-front operations as well as military operations. The government alone is in a position to say how many planes we need, how many tanks, as well as how many men. It alone can decide how our available food supply shall be divided among our troops, our Allies, and the civilian population. And it must prevent inflation, because inflation would seriously interfere with providing supplies for our troops and would injure home-front morale.

The rules and regulations that Jim Jones and his wife have run up against are only a small part of those which the government has set forth to assure the smooth operation of the war effort. The War Production Board, which has served as the economic general staff in the war, has issued many thousands of orders and directives to control our vast productive machine. Similarly, the Office of Price Administration has regulated prices. Storekeepers who ask more than ceiling prices for their goods face fines and imprisonment like ordinary criminals. Other government agencies—the War Food Administration, the War Fuel Administration, and many others—have directed phases of the home-front war effort.

Although Jim and his businessman neighbor, George Q. Billings, have accepted the necessity for an economic general staff during the war, they have assumed that these restrictions will be lifted as soon as possible at the end of the conflict. In fact, some people talk as if they thought that *all* government regulation over business should be removed as soon as the fighting stops. They have come to think of government control as a black and white matter—with control wholly black, and freedom from control wholly white.

THE ISSUE

THOSE who take the extreme position that business should be entirely free from government regulation do so because they believe that this is the road to social progress. They believe that the spur of competition and the interplay of supply and demand will make people produce more and better goods than will any other arrangement.

The opponents of this view say that our wartime experience shows this to be false. All countries at war have found that if they are to turn out the greatest possible amount of war goods they have to have strict regulation of production. This would suggest, these people say, that some regulation may be needed if full production is to be achieved in peacetime. There must be, they insist, some central coordinating agency which will see that production is directed in the interest of the public at large. An extreme expression of this second view may be found in the writings of such men as E. H. Carr and R. H. Tawney. Mr. Carr declares, for example, that the essential question is not whether business should be controlled by the government or left to individual initiative; it is whether business shall be responsible to the government or to some other collective organization, such as the United States Steel Corporation or Southern Utilities, which in many instances is only nominally responsible to its stockholders. And Mr. Tawney says that "the choice . . . is not between competition and monopoly, but between a monopoly which is irresponsible and private, and a monopoly which is responsible and public."

Does Regulation Mean Dictatorship?

On the other hand, it would be folly to ignore the fact that among the supporters of government regulation over economic life have been the Nazis and Fascists. Nowhere has state control been more rigid than in Germany and Italy. Even the Soviet Union, which owns all large-scale business, has encouraged more local freedom or

decentralization than existed in the Axis countries. Moreover, it is no accident that the rigid state control in these countries has been used mostly to prepare for war. The intense nationalism of the Nazi and Fascist states opened the way both for military preparedness and all-out government control over economic life.

Most people assume that Nazism and Fascism will no longer be a threat after the United Nations have won the war. This is brash optimism. If we are honest, we shall have to admit that the democratic world has as yet no solution to the problems that brought dictatorship to Germany and Italy. Most of us now recognize that the fascist "solution" was a dangerous and destructive one. But apart from rearmament, we have yet to find a satisfactory way of eliminating unemployment. Faced by the tremendous economic power of big business, we have a choice, at one extreme, of submitting to that power, and thus making government subservient to business, or, at the other, of creating a government that is powerful enough to dominate big business. Either extreme clearly carries great dangers. We may despise Hitler's solution, but unless we can agree on a better one, we may find ourselves being pushed to one extreme or the other against our will in an effort to escape chaos.

Where Are We Going?

Because the solution will affect everyone, it is important that people like Jim Jones and George Q. Billings see just what is at stake in this issue in terms of their future well-being. Is government "regimentation" of business something that must be eliminated if we are to have jobs and plenty in the postwar period? Or is it something that might be adapted to peace as well as to war? Or does the answer lie somewhere between the two extremes? Is there an "American way" in the relations between government and business? If so, what is it, and is it the best way?

These questions really add up to one: Which way are we going after the war? At the moment there is no clear

answer to this question. If you were to poll the American people on any of the basic questions listed above, you would not find that people agreed on any of them. We stand at a crossroads in human history, uncertain which road to take. Yet until we do know, we cannot plan intelligently for the future. We do not even know where to look for leadership or where to place responsibility for postwar policies. Are we to expect private business or such agencies as the Committee for Economic Development to take the lead? Or are we to rely primarily on the federal government? At the moment we do not know. The old world in which the people had almost unlimited faith in its business leaders was largely destroyed in 1929. But no new faith has risen to replace the old one.

This is a matter that affects much more than the comforts and wishes of Jim Jones or Mr. Billings. It involves such things as our policies in Europe and Asia. Should we support the old leaders in the liberated countries—the ones who want to restore the old property arrangements, including cartels and tariff-protected industry, or should we support those who favor changes in those arrangements? Do we want the people in these countries to copy our economic system and our form of democracy? It is hard to say until we know more about what our own goals are to be.

Back to "Normalcy"?

When faced by the uncertainties of the postwar period, the first reaction of many people is to seek to go back to the world as it existed before the war. We reacted that way in 1920. Warren G. Harding was elected President of the United States on a platform promising a return to normalcy. Actually, neither Mr. Harding nor anyone else could have restored the world of 1914, even if that had been desirable. The wartime trade restrictions and wartime regulation of economic affairs, although mild as compared to those of World War II, had destroyed the balance wheel of our prewar world economic machine—

which pivoted on the international gold standard. We know now why the efforts to restore that machine were doomed to failure. The old, prewar system could work only if it were completely flexible. But the groups that had benefited by increased tariffs, by the restrictions of immigration, by monopoly, price fixing, subsidies, or other government-granted advantages had become too powerful politically to make possible a "return to normalcy."

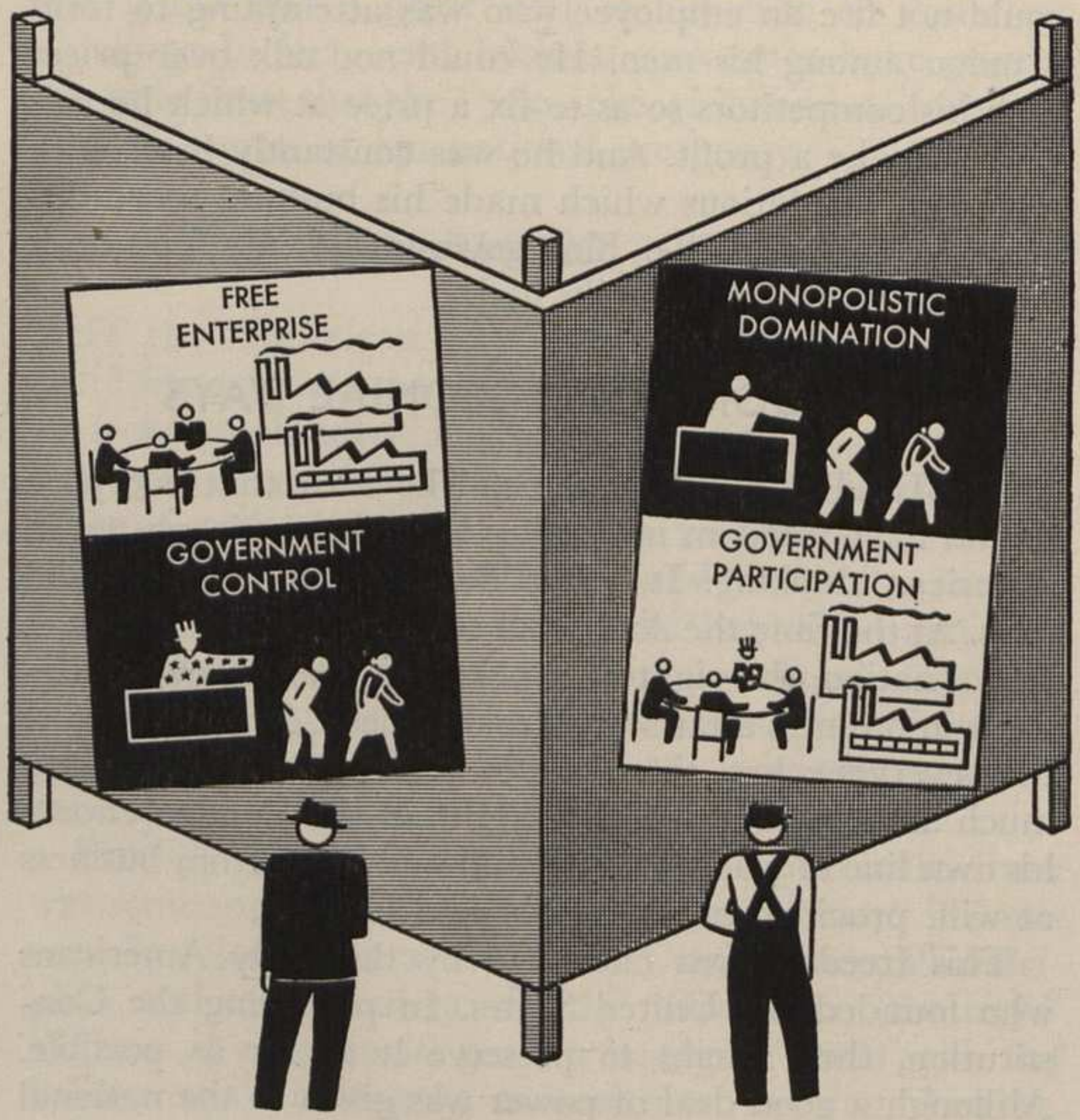
Again in this war we have heard talk about "keeping America just as it was . . . until I come back." Only this time a return to "America as it was" would be a return to the America of the depression years. And no sensible man wants a restoration either of the 1930's with their millions of unemployed or of the unhealthy boom conditions of the 1920's. Even if such a return were possible or desirable, we still would not eliminate government "interference," for government interference in economic affairs has been going on for many years and became extensive in the 1920's and 1930's.

Are Controls "Un-American"?

It was in the 1930's that we first began to hear widespread complaints about government "interference." Before that, Jim had little to do with the federal government unless he committed murder, arson, or otherwise broke the law. But during the 1930's he acquired a social-security number. The government told him that he must contribute a small part of his wages for insurance against old age. The contents of his pay envelope were affected by the federal Wages and Hours Law. And his relations with his boss were governed by the Labor Relations Act.

Jim likes this kind of "interference" by the government because it protects his family against some of the hazards of modern life. If he becomes unemployed, Jim can appeal to his state unemployment-insurance fund and receive temporary assistance. Or if ineligible for unemployment insurance, he can ask for relief. During the depression several million Jim Jones's were working directly for the

IT ALL DEPENDS ON THE POINT OF VIEW



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government under the W.P.A., P.W.A., C.C.C., or other government agencies.

But George Q. Billings, Jim's businessman neighbor, has long been concerned about the changes which have taken place. For a while under the N.R.A. his business was practically controlled by the code authority, a semi-governmental body. And before the war there were many other things which the government told Mr. Billings he could not do in running his business. He could not, for example, pay any of his workers less than thirty cents an

hour, even though they were willing to work for less. He could not fire an employee who was attempting to form a union among his men. He could not talk over prices with his competitors so as to fix a price at which he was sure to make a profit. And he was constantly beset with rules and regulations which made his business more difficult to carry on. To him government interference is "un-American" and wholly bad.

"FREEDOM" IN COLONIAL DAYS

MR. BILLINGS is not alone. The idea that everyone should have freedom in earning his living is deeply set in American thinking. It comes down to us from colonial days. At the time the American colonists made themselves into a nation, the right of a person to use his own judgment in business affairs was broad indeed. It was assumed that everyone had the right to spend his money pretty much as he wished. And he also had the right to choose his own line of work. Or he could withdraw from business at will, provided only that he paid his bills.

This freedom was cherished by the early Americans who founded the United States. In preparing the Constitution, they sought to preserve it as far as possible. Although a good deal of power was given to the national government, all powers not specifically granted were "reserved to the States . . . or to the people." A system of checks and balances was set up to prevent any branch of the government from becoming too powerful. The first ten amendments, known as the Bill of Rights, were enacted as a special protection for individuals from a too powerful national government.

During the nineteenth century, moreover, Americans were influenced by a group of thinkers who maintained that certain things were natural and therefore good, while others were artificial and bad. Private enterprise in the field of business was "natural" and therefore desirable, and government regulation was held to be "unnatural."

This view was never wholly accepted by American leaders, but it has had a great deal of influence on American thinking. In fact, some business spokesmen have gone so far as to insist that the "principles of individual freedom" are the secrets of our national prosperity.

THE GROWTH OF REGULATION

BUT the "American way" has never been one of complete freedom in economic matters. Despite the emphasis on freedom of individual choice, America has never failed to regulate economic activities. It has always insisted that, when a man decides to go into business, his decision influences more than just himself and his family. Because we tend to forget that, it may be helpful to run over briefly the history of government intervention in economic affairs. This intervention has many forms, both direct and indirect. Let us look at some of the examples of direct control first.

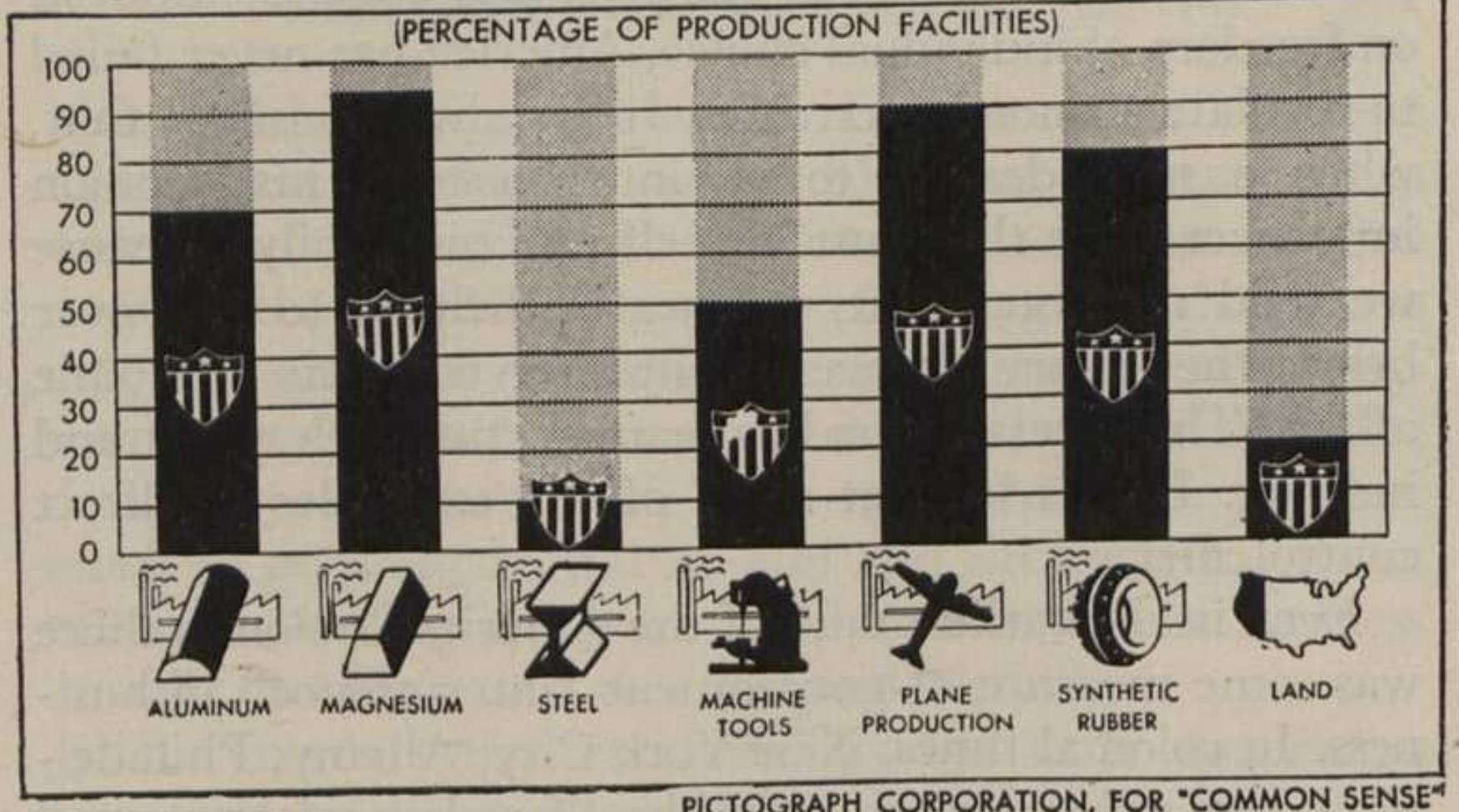
Even in the earliest days of the American colonies there was some measure of government "interference" in business. In colonial times, New York City, Albany, Philadelphia, and other centers sold the "freedom of the city." Without it none could go into business. Trade with the Indians was a monopoly, as were most ferrying, docking, and turnpike rights. As late as 1830 a considerable share of the venture capital in Virginia, North Carolina, and other states was furnished by the state government, and the state government took in return stock which it voted in directors' meetings.

The Government in Business

From this beginning the government has gradually taken on a great many different kinds of economic activities on its own. In most instances they are things which could be done by private enterprise but are not. Roads, for example, are usually built nowadays by local or state governments, although they have been built by individuals

or companies in the past. We still have a few private schools, but we wouldn't dream of leaving the education of our youth entirely in private hands. And we have such huge government projects as the Post Office, the T.V.A., Grand Coulee, our forest preserves, public housing, public health, and the Soil Conservation Service. Businessmen are simply not interested in doing most of these things,

GOVERNMENT OWNERSHIP IN WARTIME



PICTOGRAPH CORPORATION, FOR "COMMON SENSE"

but most of them—as in the competition of the Post Office with the telegraph companies or private messenger services—conflict with private business at many points.

Preserving "Fair Competition"

Then there is a kind of interference desired by business itself. We find, for example, that the common law which we took over from England contained a number of rules designed to protect the individual businessman. A concern was forbidden to try to pass off its products as the goods of another. Similarly, it was against the law for it to try to undermine the credit or name of a competitor, or to try to persuade a competitor's customers to break their contracts with him. Finally, the patent laws forbade a

man to use another person's invention without payment. All of these rules had as their purpose the preservation of "fair" competition. But they stepped on the toes of those who had depended on what some people still considered the honest tricks of the trade.

Emergence of the Corporation

In the earliest days, incorporation was developed as a means of regulating industry. Some of the early British companies, for example, were equipped with their own military forces and their own courts, but they were under strict government control. They were public bodies. About the middle of the nineteenth century, however, new laws were drawn up making incorporation much easier. With this change the old ideas of the corporation as a sort of public trust quickly disappeared. States rivaled one another to persuade large companies to set up business within their boundaries. With the growth in the number of corporations, the older ideas about economic freedom began to change. There was good reason for this. The laws that assured "fair" competition between individual businessmen simply did not work when the competition was between great "trusts" and small businessmen. Corporations could not be controlled easily by ordinary criminal laws since no individual could be held responsible for their acts.

Problems Arising from Growth of Corporations

Where a corporation is small and owned by a few persons, it creates few new problems. But when there are many owners, widely scattered, and no one person owns a large part of the stock, very serious difficulties arise. We have a situation in which one set of persons—the stockholders—own the corporation but, because of their number, cannot effectively control it. The control rests with those who have the power to choose the directors, determine policies, and give direction to the management. These may or may not be stockholders.

It would take far more space than we have here merely to list the kinds of regulations that were drawn up in the United States from 1880 on affecting the activities of corporations. Many of them were of the same type as those affecting individual businessmen. These had as their purpose the preservation of "fair" competition against abuses introduced by the corporation. Few persons blamed the competitive system for these difficulties. It was felt, on the contrary, that they were the outcome of some weakness in governmental policy which prevented the system from operating efficiently. What was demanded was not measures for controlling competition but some means of restoring competition. It was felt that this was the way to lead the country back to the "golden age" of the frontier.

The Sherman Act

These views led to the passage of the Sherman Anti-Trust Act in 1890. It declared unlawful "every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade." Although sweeping in its language, the Sherman Act did not immediately stop industrial mergers. Some thirty-six important consolidations were carried out in the three years immediately after the passage of the act. These included the formation of the American Tobacco Company, the American Sugar Refining Company, the General Electric Company, and the United States Rubber Company. The five years between 1898 and 1902 saw an even greater wave of mergers. Among the 168 new combinations of national significance formed in this period was a super-giant—the United States Steel Corporation—established in 1901.

Laws Against Monopolistic Practices

As time went on, it became clear that the Sherman Anti-Trust Act was not broad enough to stop all types of interference with competition. Companies could keep within the law and yet adopt business methods which

stifled competition. Theodore Roosevelt tried to offset this by his "big stick" and trust busting. When this proved inadequate, Woodrow Wilson persuaded Congress to regulate business still more drastically by passing the Clayton and Federal Trade Commission Acts in 1914. The Clayton Act prohibited a concern from adopting a different set of prices for different customers. It forbade a company from forcing its customers to promise not to use or sell the goods of a competing firm. It forbade a company, under most circumstances, to buy the stock of another company engaged in the same business. And it restricted the practice of interlocking directorates. The second act set up the Federal Trade Commission for the purpose of checking trade abuses. The commission has sought to ban two types of activities: (1) those involving secret understandings with supposedly competing firms; and (2) those involving an unfair attack on a competitor.

The Federal Trade Commission has been unable to prevent interlocking directorates, or the holding of stock in one corporation by another, because of loopholes in the law. But it has been more successful in stopping illegal price-fixing arrangements.

Protection for Consumers

Although most legislation affecting business in the first century of American independence had as its purpose the protection of business, a new idea began to emerge. That was the necessity for protecting the public against harmful business practices. When the Federal Trade Commission was set up, it was not known whether its power "to prevent unfair methods of competition" was meant to protect consumers as well as competitors or not. In practice, however, the commission has, from the beginning, gone a considerable distance in guarding against fraud, deception, or bad faith. This process was expanded when the Wheeler-Lea Act, passed in 1938, gave the commission increased powers to stop false and misleading advertising of food, drugs, and cosmetics.

Misbranding of Products

A large part of the commission's activities has been directed toward preventing the inaccurate branding of products. For example, its first two orders required certain companies to stop selling their products under the trade names "Cilk" and "Kapock Sun Fast Silk" when, in fact, they contained no silk. The commission has taken similar measures to prevent companies from giving a false impression of their business. The Royal Milling Company was forced to change its name in order to avoid misleading the public into thinking that its ready-mixed products were made of flour which it had ground itself. Action has likewise been taken against companies for giving the impression, either in the firm name, the brand name, or in advertising, that the product comes from another region from that where it was actually produced. Other "unfair" practices include the misrepresentation of the true value of a product, the imitation of trade marks or names, and the use of lotteries as a means of increasing sales.

The special regulations in certain industries are more sweeping. For example, the Food and Drugs Act of 1906 makes it illegal to misbrand or adulterate foods or drugs. A food product was declared to be adulterated if something else was mixed with it to reduce its quality or strength. In 1938 the law was strengthened and extended to include cosmetics. Here we have clear-cut efforts to protect the consumer as well as possible competitors from deceptive practices.

There are, it is true, only a very few cases in which the government goes so far as to insist that goods offered for sale come up to certain standards. Such restrictions exist primarily in the field of foods, drugs, cosmetics, and meats, where laws are clearly necessary to protect public health.

Equally far-reaching, however, and with the same purpose of introducing ethical standards in business, are the provisions of the Securities Exchange Act of 1934. Corporations issuing stocks and bonds are compelled to file

very detailed information with the Securities and Exchange Commission before the securities may be sold across state lines.

OTHER KINDS OF INTERFERENCE

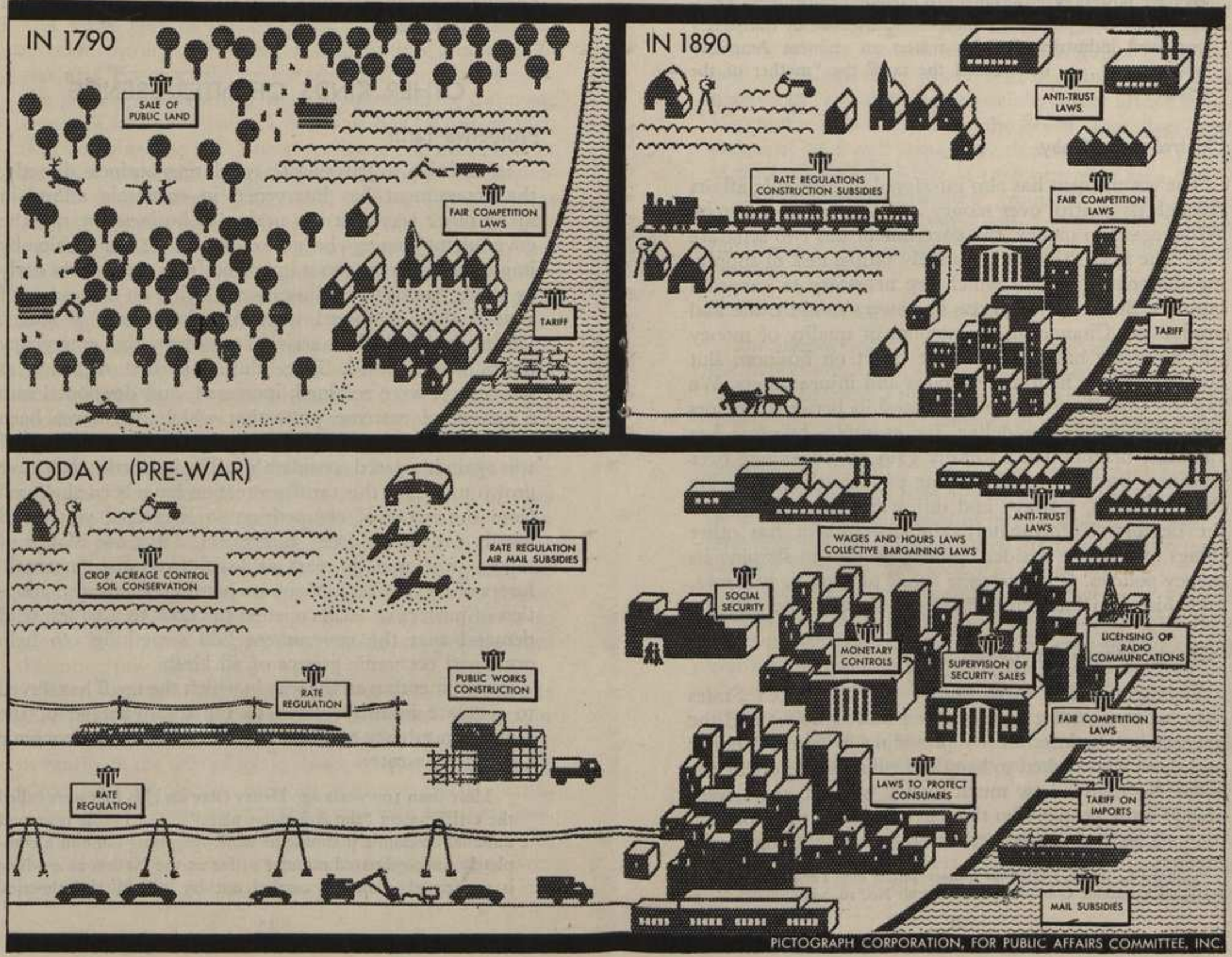
Protective Tariff

In addition to entering or regulating business directly, the government has intervened in economic affairs in many other ways. At the urging of business groups, the government long ago began to restrict free competition by imposing tariffs on goods imported from abroad. As early as 1828, "protective" duties were levied on a number of articles that competed with American-made products. During the Civil War a series of extremely high emergency duties was imposed. These duties, at first regarded as temporary, were retained, increased, and developed into a system of extreme protection which has never been radically modified. Following World War I, the tariff was again increased considerably. The industries that have grown up under this tariff protection have been sheltered from the rigors of competition so long that you could hardly call them "free" enterprises. They are islands of safety, protected, in part at least, from the "natural" forces of competition. Many economists believe the adoption of protective tariffs opened the door to a widespread demand that the government "do something" to help organized economic groups of all kinds.

In commenting on the way in which the tariff has served to regulate industry, often to the disadvantage of the public, an adviser to the Temporary National Economic Committee wrote:

> More than 100 years ago Henry Clay and his followers called the tariff system "the American plan." . . . Tariffs represent national economic planning at work—planning done in a completely uncoordinated manner so far as the Nation as a whole is concerned, planning carried out by individual industries,

A MORE COMPLEX LIFE MEANS MORE "GOVERNMENT IN BUSINESS"



each seeking its own self-interest, planning which uses the coercive powers of government to exclude competition. Needless to say, such planning is most efficiently done by completely organized industries. For this reason an eminent American businessman . . . once called the tariff the "mother of the trusts."*

Control over Money

The government has also interfered in economic affairs through its control over money and the banking system. With regard to money, the government has two separate jobs. The first is the comparatively simple task of supplying the coins and bills which are necessary to carry on business. But it may also use its powers to aid trade and production. Changes in the amount or quality of money will naturally have considerable effect on business. But any policy may help some groups and injure others. We can see this clearly in the relationship between debtors and creditors. If the dollar, for example, becomes less valuable, debtors will naturally gain an advantage over creditors. But if it rises in buying power, as it did during the depression, a heavy and unjust burden is placed on the debtors. Unfortunately, the government has other things to consider besides business welfare in shaping its money policies. It has to raise funds to meet its expenses, and this often interferes with normal economic activity.

"Cheap" Money Campaigns

Throughout the early history of the United States there was a constant fight between those who wanted the government to interfere by providing a "cheap" dollar and those who wished to keep the value of the dollar the same. No matter how much money we had, there were always some people who thought we should print or coin more. This was partly because they thought that more

*Clifford L. James. *Industrial Concentration and Tariffs.* Temporary National Economic Committee Monograph No. 10. 1940.

dollars meant more wealth for everyone. And it was partly because persons who were in debt wanted "cheap" money so they could pay their debts more easily. The fight over money started immediately after the Revolution, when debts were especially heavy, and continued through the nineteenth century. It was especially severe after the Civil War and reached a climax in the Bryan "free silver" campaigns of 1896 and 1900. Bryan's defeat and the passage of the Gold Standard Act in 1900 proved to be a decisive victory for the "sound money" group. The issue was practically forgotten during the early years of this century. But it came back with a vengeance during the last depression.

The Money Issue in the Depression

The money issue took on somewhat different form in the depression. Debt was not overlooked altogether as a problem. But much more attention than ever before was paid to the influence of money on general business activity. This change was, in part, the result of the increasing importance of industry. For it is in industry rather than agriculture that the influence of money can most clearly be seen. When the amount of money flowing through the economic system is reduced, men are thrown out of work. When it increases, new jobs are opened up.

In the 20's several methods were developed for controlling the flow of money and credit. They included regulation of lending by the Federal Reserve Banks; control over interest rates by the "rediscount rate"; purchase and sale of bonds by the Federal Reserve Banks; and direct pressure on individual banks. These powers seemed strong enough to achieve any control that was necessary, although they sometimes worked at cross-purposes.

Depression Measures

The economic collapse of 1929–1933 changed the whole picture. None of the powers which had been developed in the 20's was strong enough to make much of an impres-

sion on the situation. Yet people had come to look to the government for a greater amount of assistance in the economic field than ever before. The result was that in many countries, including the United States, the governments began to look upon the promotion of prosperity as their primary job. All sorts of new measures were introduced with a view to bringing about recovery. There were so many of these that we do not even have space to list them here. But the chief ones fell under one or another of the following heads:

1. Added control over bank credit.
2. Currency devaluation; controlled exchanges; controlled gold and silver markets.
3. Relaxation of restrictions on bank lending.
4. Control over stockmarket speculation and the issuance of new securities.
5. Public spending of borrowed money, including loans, public works, relief expenditures, and bonuses.

The most spectacular of these steps was the devaluation of the dollar. At the time of the bank holiday in March, 1933, the United States ceased paying out gold in exchange for currency. After allowing the dollar to fluctuate in value for nearly a year, the government set a new value 41 per cent lower, in gold, than the traditional value of the dollar. The devaluation of the dollar naturally had considerable effect on economic life. It temporarily stimulated export trade by making our goods cheaper abroad; and since foreign goods became more expensive, it curtailed imports. More important, by helping to raise prices it stimulated business activity and brought relief to debtors.

Deficit Spending

It is only within recent years that governments have sought to bring about prosperity by large-scale spending. Whether such spending actually promotes recovery is a matter of dispute which cannot be settled here. But it can

hardly be denied that a government deficit, if it is financed either by the printing press or by borrowing, will increase the incomes of many individuals and to that extent encourage increased production and investment by private business. War spending, being on a much larger scale than depression spending, has made this very clear. But it has also made people realize the dangers of such spending.

LABOR STANDARDS

IN quite another field the government has "interfered" with business through laws and regulations governing employment. These include the restrictions regarding wages, hours, and conditions of work. They are in a sense restrictions on individual freedom since they say what kind of employment contracts may or may not be made.

The law says, for example, what kind of employees a businessman may or may not have. For some time we have had restrictions on the employment of child labor in many states, and the federal government, after several setbacks on constitutional grounds, now has its own child-labor law covering products entering interstate commerce. Seventeen states ban the employment of women in underground jobs such as mining. Seven states forbid the employment of women in jobs requiring the lifting of heavy weights. Arizona carries this idea still farther by prohibiting employment of women in work where they are required to stand all day. Even men face certain restrictions. We have laws in most states limiting those who may be employed in certain types of work. These include such occupations as pharmacist, barber, plumber, electrician, and seaman, where lack of skill is dangerous to society.

Hours of Work

Even in colonial days some limit was placed on the length of time an employer could compel his employees to work. The prohibition of Sunday work which we find in those early days was, however, based on religious rather

than humanitarian grounds. For nearly a hundred years some states have limited the working day for women or children. By the time of the Civil War, six states restricted women workers to a ten-hour day. But in those early laws, employers were not penalized if the women "voluntarily" agreed to work longer hours. A Supreme Court decision in 1908 encouraged states to make the law compulsory. Gradually, the number of hours was reduced until the eight-hour day became recognized as standard. All but five states have set some restriction on the length of the work day for women employees. Sixteen states prohibit night work for women in any occupation, and all but three states forbid night work for children.

The practice of limiting the length of the working day for men came much later. Most of the early restrictions applied only to dangerous occupations such as mining. But in 1938 Congress passed the Fair Labor Standards Act, which provides a "ceiling" of forty hours a week and requires that time-and-a-half wages be paid for overtime. This law, like all federal laws, applies only to workers in enterprises whose products are shipped across state lines.

Job Risks

We find many laws which have as their aim the protection of workers in dangerous industries. Most states have compulsory factory inspection to see that proper safety precautions are taken. There are requirements regarding adequate lighting and ventilation. By the beginning of 1938, seventeen states had laws restricting industrial home work. Most of the earlier regulations regarding working conditions were formulated by state lawmakers who knew comparatively little about the problem. Recently, however, responsibility has been placed increasingly in the hands of a commission or state department of labor which is empowered, after a public hearing, to establish the necessary safety codes. All of the states but one have now adopted laws providing compensation on an insurance basis to workers disabled in industrial accidents.

Wages

Wages were the last matter affecting the worker's welfare to be regulated. It was not until the present century that laws regarding wage rates were introduced in the United States. Then such minimum wage laws as were adopted applied only to women and minors. The first such law was passed in Massachusetts in 1912. It applied only to women. Firms were not compelled to pay a minimum wage, but the names of those who failed to do so were published. Other states followed suit, but the whole movement received a rude setback in 1923 when the District of Columbia minimum wage law for women was held unconstitutional. The depression aroused new interest in the matter. A number of states enacted new laws, and in 1937 Congress gave its approval to an interstate Minimum Wage Compact. Meanwhile, the N.R.A. attempted to put a floor under the wages of men as well as women. This was followed in 1938 by the Fair Labor Standards Act which provided a minimum wage for workers in concerns engaged in interstate commerce. And during the war the War Labor Board has used its emergency power to raise the minimum in many types of work.

Whether the fixing of wages in time of war will lead eventually to the fixing of wages in peacetime as well is a question on which there is much difference of opinion. But since wages directly affect the cost of production, the answer is of great importance to the future of our national economic life.

SECURITY VS. FREEDOM

IT is obvious from this brief review that there has been a growing amount of government "interference" in business affairs. Yet it has not brought disaster. Our national wealth and well-being have increased at an unprecedented rate. A conflict, however, undoubtedly has arisen. The idea that everyone should have complete freedom in earning his living has come sharply against another idea—the

desire of individuals and organized groups for greater security than is possible under unfettered competition. This desire for security is not limited to workers or farmers. It was shown first by tradesmen and businessmen. In the earliest days the government was asked to intervene only to the extent of eliminating trickery and "unfair" competition. Then came the demand for special protection against foreign competition through tariffs. And then business groups themselves began to combine in "trusts" to eliminate competition and stabilize prices. Finally, independent businessmen demanded that the government intervene to give them security against great corporations.

It was not until the idea of government interference to prevent injustice was widely accepted that the general public began to demand protection against unfair business practices. Even today it is much easier to convict a company of "unfair" practices that injure a competitor than of practices that are injurious to the consumer. Protection of the security of workers in bargaining with their employers is also a comparatively recent development.

The reason for the growing demand for security from all groups is plain. Unfettered competition is ruthless. Often a tricky, unscrupulous rival can destroy a hard-working, intelligent, useful producer. In the rivalry between two industrial giants, the quality of the product is often lost sight of and the struggle becomes one in which slogans, advertising, marketing agreements, and financial arrangements become all-important. In such a struggle, the winner gets all, while the loser is either absorbed or eliminated altogether. And where workers are involved in the competition for jobs, the loser under modern conditions is wholly without means of livelihood.

But if unfettered competition is ruthless, too great security may destroy initiative and efficiency. The chief argument usually made against government ownership and operation of business is that government civil servants, being relatively secure in their jobs, have little reason to burn the midnight oil in seeking more efficient methods

of operation. But the same is true of private business where protective tariffs or monopoly agreements have eliminated competition. Public utilities and the railroads are notorious for slowness in cutting rates or adopting new ideas.

Some employers insist that a worker who is secure will not do so good a job as one who has to be constantly on his toes for fear of losing his job. There is probably considerable difference among workers in this regard. Some men may work better if they are in fear of losing their jobs, but others undoubtedly are more effective when the fear of unemployment is removed. Nearly everyone will agree that long spells of unemployment will injure a worker's efficiency. And most will agree that a well-fed worker who is well treated will do better work than a half-starved worker who is driven by constant fear of unemployment.

It will be noticed that a strong case can be made both for security and for freedom. And there is a real conflict between the two. The many steps that have been taken in recent years, both by industry and the government, to provide greater security have interfered, to a degree, with individual initiative. Ruthless competition, on the other hand, has crushed many small businessmen and magnified such evils as unemployment.

Neither Extreme Practicable

In talking about the relative merits of unhampered private enterprise and over-all government regulation, most people talk as if we must make a fateful choice between these two extremes. This is nonsense. There can be no such thing as completely free enterprise in modern society. We have seen how the government has stepped in from the beginning of the Republic in countless ways to regulate economic activities. The plain fact of the matter is that the government alone is neutral enough and powerful enough to tackle many of our most important economic problems. This is recognized by business quite as much as by labor, farmers, or other economic groups.

But talk of an economy completely regulated by the government under private enterprise is equally unrealistic. Even in wartime the bulk of our economic activities has been outside of government control. There are many reasons for this. Most people will agree that complete government regulation, in war or peace, would be much too complicated to be handled successfully. Moreover, as a people we are fearful of governmental tyranny. While a good tyrant may sometimes seem preferable to a bungling democrat, we know that men who seek to dominate rarely put the welfare of their fellow men ahead of their personal ambitions. Finally, over-all control tends to be too rigid. Experience has shown that even where regulation is necessary, a considerable amount of leeway should be left for individual initiative and local adjustments by individual enterprise.

A Middle Ground?

If complete economic freedom is impossible and complete government control undesirable, we obviously must seek a middle ground between the two. But such a middle ground is not easy to find. We have been seeking it, in one way or another, for many years. We have discovered to our dismay that the two methods of economic organization tend to work against each other. Each new government regulation makes "free enterprise" more difficult to operate. And a little planning in a society in which most important economic decisions are still made by private companies is not much good. Real planning is impossible without power. While nearly everyone agrees that we must have a combination of private business and government planning, actually the conflict between the two threatens us with complete economic paralysis.

The reasons for this paralysis are not hard to understand. As it is now set up, American business can operate only if there is a possibility of making profits. Any effort by the government to keep prices down, to regulate wages, or to plan production may interfere or threaten to in-

terfere with profits. Businessmen are so accustomed to running their own show that they hesitate to take the risk of opening new factories or starting new enterprises if they think the government may interfere. Often their fears are quite groundless, but in other instances they may be quite legitimate. Actually, except for war production, there has been little constructive planning in this country. But there has been a great deal of interference with normal activities, much of it inspired by little more than jealousy over a company's success.

On the other side of the picture, we find that the government has been prevented time and time again by business pressures from adopting a vigorous policy to provide jobs and stimulate business. If the government is vigorous, it is accused of trying to set up a dictatorship; if it yields to pressure and does nothing, it is said to be dominated by impractical bureaucrats. The result has been that, except during the war, neither private business nor the government has provided effective leadership in recent years. The two powerful forces tend to cancel each other out, producing a hopeless deadlock.

IS THERE A WAY OUT?

A DEADLOCK not only means unemployment and economic ruin, it opens the way for a demand for "strong" leadership. This is precisely the kind of situation that existed in Italy and Germany before the rise of Fascism and Nazism. If democracy is to survive, it must find a positive way to break this deadlock without sacrificing either public welfare or freedom for the individual. There are some spheres in which the individual can be given considerable freedom in deciding how to earn his living; but there also must be protection against actions that are harmful to the weaker groups, either business, workers, or consumers.

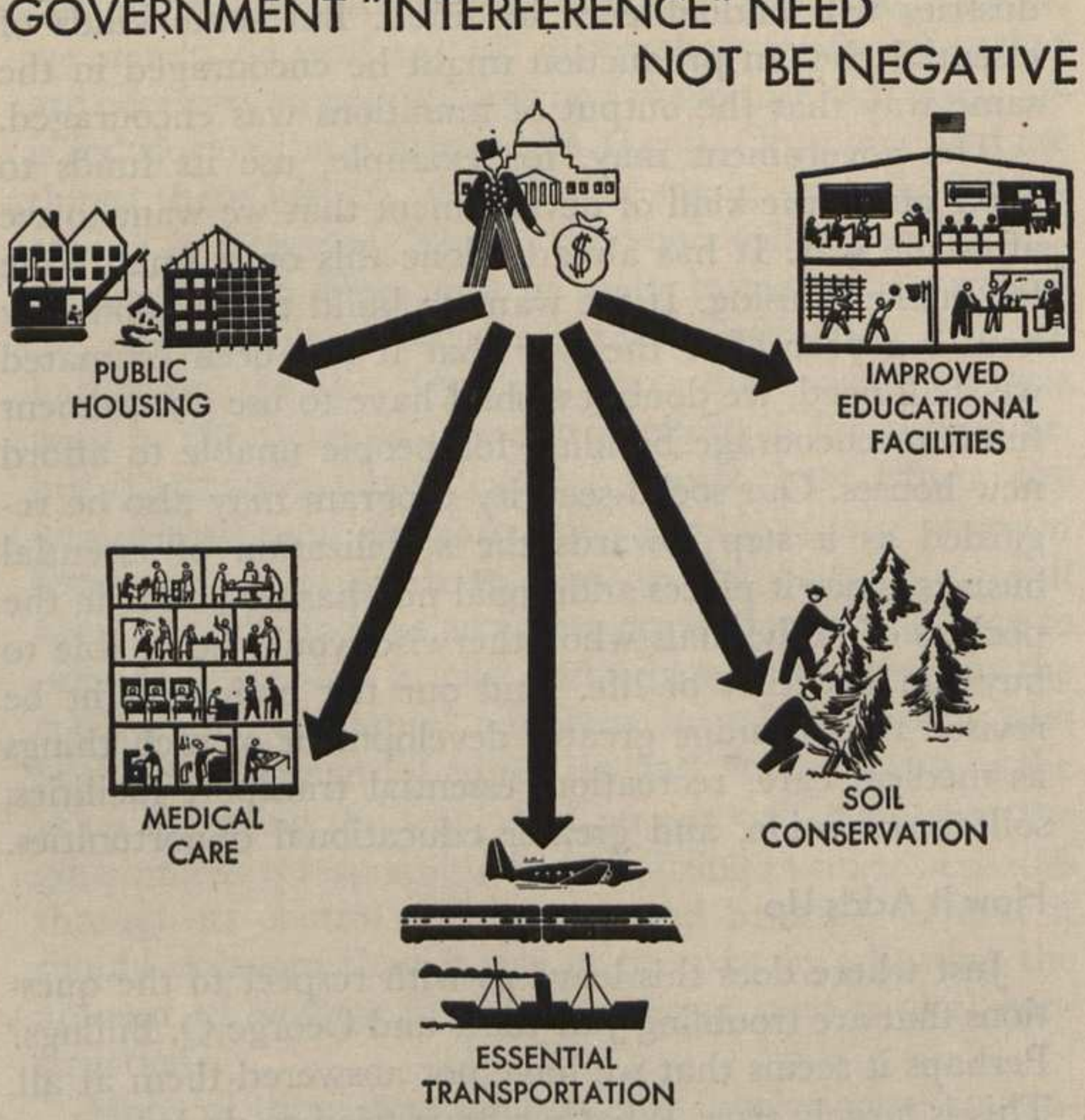
There is every reason to believe that the deadlock can be broken if the advocates of free enterprise, on the one

side, and of government planning, on the other, will stop fighting with one another long enough to seek, not a middle ground or a compromise, but an arrangement incorporating the advantages of both approaches. For there are advantages in both approaches. Everyone will admit that we should have the greatest possible amount of freedom in some fields such as scientific research, the arts, entertainment, and religion. On the other hand, nearly everyone will agree that such activities as public education, police protection, road making, great construction projects like Grand Coulee, and military affairs should be carried on by government bodies without the lure of private profit.

Between these extremes, it will often be difficult to fix the line. And at different times and places we may reach different decisions. We are coming to agree that there are many kinds of economic activity where competition is wasteful and strict regulation necessary. These include public utilities, railroads, banking, and all potential monopolies. In other fields also the public will undoubtedly insist on some standard of protection for consumers. Most business will continue to be subject to some regulation, both for its own sake and in the public interest. But at the same time, there will be room for competition, and the greatest reward will go to the most efficient. On the other side of the line, we shall undoubtedly try to leave small businessmen, farmers, and individual workers as free as possible to choose their own way of making a living.

Positive Measures Should Be Encouraged

Government intervention in economic matters need not, moreover, always be negative. There are two ways of keeping individuals and businesses from trampling on the rights of others. One is by rules and regulations enforced by penalties. The other is by making the proper actions attractive and rewarding. The federal government has long used this second principle in dealing with the states. In order to make sure that the citizens of all states get



equal treatment, the federal government sometimes makes its grants to the states dependent on their conforming to standards set by the federal government. Similarly, the Agricultural Adjustment Act provided benefits to farmers who practiced certain soil conservation measures. This idea undoubtedly can be used as a basis for much more comprehensive planning than we have had so far.

The government has frankly used the profit motive to encourage essential production during the war while limiting unessential production by all sorts of curbs and restrictions. After the war the restrictions on unessential in-

dustries will undoubtedly be lifted. But some kinds of essential civilian production might be encouraged in the same way that the output of munitions was encouraged.

The government may, for example, use its funds to bring about the kind of development that we want to see after the war. It has already done this on a small scale for public housing. If we want to build the million new houses a year after the war that it has been estimated we shall need, we doubtless shall have to use government funds to encourage building for people unable to afford new houses. Our social-security program may also be regarded as a step towards the stabilization of essential business since it places additional purchasing power in the pockets of individuals who otherwise would be unable to buy the essentials of life. And our tax policy might be revised to encourage greater development of such things as medical care, recreation, essential transport facilities, soil conservation, and greater educational opportunities.

How It Adds Up

Just where does this leave us with respect to the questions that are troubling Jim Jones and George Q. Billings? Perhaps it seems that we have not answered them at all. This is largely true. What we have tried to do is to show that the questions were not the right questions. The American people have let themselves become confused by slogans. The real issue before them is not whether we shall have "free enterprise" or government control. Virtually all groups want the government to "interfere" in economic affairs when it helps them. There are many kinds of government regulation that almost everyone agrees are necessary. No one believes any more that business groups should have "freedom" to injure the public. Yet there are areas where everyone agrees that there should be a high degree of individual freedom and every effort made to develop initiative.

We must, then, avoid a paralyzing and senseless controversy over the relative merits of "free enterprise" and

"planning." Instead of using these loose and general terms, we should do well to talk about the specific steps that are necessary to provide jobs and make sure that everyone is fed during the difficult days ahead. On many of these things there will be general agreement, once the name-calling is forgotten. Nearly everyone will agree, for example, that an effort must be made to maintain purchasing power so as to encourage more production than we had before the war. They will agree that private business must be encouraged to expand its efforts as far as possible, but if unemployment develops despite these efforts, the government must be ready with a public-works program based on public needs to take up the slack. They will agree that the federal and state governments will have to provide leadership in city and regional planning, in the conservation of natural resources, in public housing, and in the development of education and public health in the years following the war. And no one will deny that the government is responsible for stabilizing business activities through its control over money and banking, or that it should do more than it has in the past in adjusting the amount of savings to the amount of new capital construction.

Many of these steps undoubtedly involve some government controls after the war. But we have seen that throughout our history government control has been the "American way." In itself, control or regulation is neither good nor bad. It is suitable for some purposes and unsuitable for others. It may be applied for a broad social purpose or in the interest of a small, selfish group. It may be awkwardly or crudely administered, thus interfering with production, or it may be applied constructively to stimulate private production in the public interest. The practical issue before us—and reflected nearly every day in the debate over governmental policy—concerns the *kind* of governmental "interference" in business we shall have. Shall it be interference to help special groups in response to powerful pressure? Or shall the government

endeavor to protect the interest of society as a whole? It is the use of government controls rather than the existence of controls that constitutes what may be regarded as America's No. 1 Problem for the postwar years.

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