Prospects for agricultural recovery, IV. National economic planning

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Recommended Citation
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IV. National Economic Planning

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AGRICULTURAL ECONOMICS SECTION

AMES, IOWA

Published by Iowa State University Digital Repository, 1933
The group of recovery measures passed by the special session of Congress in 1933 constitutes somewhat of a landmark in economic history. Even more remarkable than the measures themselves is the change in economic philosophy that brought them about. The swing from America's traditional economic philosophy of individualism toward a greater degree of social control that brought these recovery measures into being is one of the most significant events of modern times.

The recovery measures could not have been put through if this change of emphasis from individualism toward more social control had not taken place; they cannot be enforced unless the change continues to receive general public sanction. Is this swing only temporary, only a result of the depression? With returning prosperity, will the country return to individualism with the minimum of social control? Or is the change somewhat permanent; may it even presage further steps in the same direction? This question is the subject of the present bulletin.
Prospects for Agricultural Recovery

IV. National Economic Planning

By Geoffrey Shepherd*

During 1933, a sudden and striking increase in governmental regulation of private business took place in the United States. By the latter part of the year, the country's industries had practically all been brought under federal codes, enforceable by governmental authority, which set minimum wages and maximum hours of work; blue eagles had appeared in shop and factory windows on every hand; farmers were planting cotton or wheat, not according to their own individual plans but according to their contracts with the federal government; the government was buying and slaughtering several million lightweight pigs in an endeavor to reduce the supply and increase the price of hogs; it was developing a vast power and rehabilitation project at Muscle Shoals in the Tennessee Valley; it was stringently defining the conditions under which securities can be issued, and in a dozen other ways regulating private business. At least for the time being, the United States substantially modified her traditional economic policy of free competition, individualism, and "no government in business," and greatly extended the application of the policy of governmental regulation and control.

A certain amount of governmental regulation of industry, of course, is not a new thing in America. In some fields, it has existed for many years. Banks have for generations been subject to some measure of state and federal control. Our railroads operate under Federal regulation of rates; railroad freight and passenger rates are set, not by open competition, but by the Interstate Commerce Commission. Electric light and power companies, municipal street car or subway systems and other public utilities have been more or less regulated by public authority for years.

* The author appreciates the helpful criticisms and suggestions offered by his colleagues in the Agricultural Economics Section and the Agricultural Economics Extension Service of Iowa State College.
But two great fields of America's economic activity—manufacturing industry and agriculture—have hitherto been subjected only to the minimum of governmental regulation or control. These two fields have in the main operated under the general policy of free enterprise and free individual initiative, controlled only by competition and the "natural economic laws" of supply and demand working through rising and falling prices.

So it is somewhat startling to find government regulation extended, in one series of sweeping emergency measures, into these two fields, manufacturing industry and agriculture. It is a phenomenon that raises two questions in our minds. First, why did it happen? And, second, is it likely to last?

THE IMMEDIATE CAUSE OF THE EXTENSION OF GOVERNMENTAL CONTROL

The first question, "What caused the sudden extension of the policy of governmental control?" can be answered comparatively easily by referring to the course of events during the present depression.

When the industrial depression began, in the latter part of 1929, it was thought at first to be only a healthy business readjustment, or at the worst, a temporary business recession. Time passed; and conditions, instead of improving, grew worse. By the end of the second year, people became alarmed. By the end of the third year, unemployment in industrial centers and low prices for agricultural products caused widespread privation and misery. Revolt began to flare up in mines and factories and on Corn Belt farms. The country seethed with unrest.

There was reason for the revolt and the unrest. The situation was not only desperate; it was absurd. People were starving in the midst of plenty. Our whole economic system seemed to be falling to pieces. Our whole economic system seemed to be falling to pieces. On the one hand were tremendous surpluses of grain, cotton and other raw materials, jamming the warehouses for lack of a market; on the other hand were 13 millions of unemployed, many of them walking the streets, shivering and starving for lack of these very goods. Here were idle factories, idle men, idle raw materials and idle money. Here were people desperately needing work, and desperately...
needing food, clothing and shelter; and they stood powerless, with surplus stocks of grain, cotton, leather and lumber on the one hand, and excess manufacturing capacity for making these raw materials into food, clothing and shelter on the other. The economic system was unable to bring the laborer, the raw materials and the factories together to produce the flow of goods so urgently needed.

In this situation, great popular pressure was brought to bear upon the government to do something to end the depression. The emergency measures passed by the special session of congress early in 1933 were the result. Underlying trends perhaps had prepared the way for this type of legislation; but the immediate cause that put the legislation through was clearly the depression.

GOVERNMENTAL CONTROL—EMERGENCY EXPEDITIOUS, OR PERMANENT PLAN?

The second question is, how long is the program of increased governmental control likely to last? Are we merely in the middle of an emergency program that will be terminated when the emergency is over, or have we embarked upon a new and permanent policy of social regulation and control?

If the depression were the sole cause of the change in policy, we should expect that when the depression is over, the whole recovery program would be discarded. We should expect to see industry and agriculture return to free competition and individualism, with employers free to set such wages and hours as competition would permit, and with the farmers free to raise as much or as little produce as they felt inclined.

But if fundamental changes have been taking place below the surface in industry and agriculture, if underlying forces have been at work which render an increased amount of social control of industry and agriculture necessary as a long-time program, then the new policy is likely to become permanent; it might even be expanded in the future.

Our first task, then, is to study what fundamental developments have been taking place in the organization and conduct of industry and agriculture, and to determine whether those developments call for an increase or for a decrease in governmental regulation and control.
Our examination will be in the main restricted to agriculture and manufacturing industry. Our primary concern is with agriculture, but our study cannot be restricted to agriculture alone. Agriculture's income is so closely bound up with industry's prosperity, and vice versa, that both groups have to be taken into account. This is shown in fig. 1, where the close parallelism of industrial payrolls and agricultural prices is evident. We shall also need to study the reaction of consumers as a group, since these reactions very directly affect both manufacturing industry and agriculture.

CHARACTERISTICS OF MODERN ECONOMIC SOCIETY

A glance back into history will give us perspective for a study of the present-day organization of modern industry.

Back in 1776, when Adam Smith first set forth the advantages of free competition and unhampered individual enterprise, conditions were well suited to that policy. James Watt
had not yet perfected his steam engine.\footnote{Watt invented a pumping engine in 1769, but he did not patent a revolving wheel engine (that is, a steam engine adapted to factory use) until 1781. Encyclopedia Brittanica, 14th edition. 21:353. 1929.} Arkwright and Comp­ton had not yet invented the spinning machinery that soon afterward put England in the lead in textile manufacture. Small-scale industry was the rule. The corporate form of business was still in its infancy;\footnote{"In both Europe and America the development of the modern corporation appears to have received its impetus from the industrial revolution. In England, incorporation continued to be a matter of special grant by king or parliament until 1844, when associations with more than 25 members were permitted to register as corporations. Limited liability was not accorded such corporations until 1855." Encyclopedia of the Social Sciences, 4:415-6, 1931.} Smith thought that corporations were not adapted to most lines of business, except banking.

Under the conditions of small-scale industry existing at that time, Smith showed that if each man were left to himself, in striving to further his own interests, he would unconsciously further the interests of society as a whole. He would be kept in line with the best interests of society by the action of com­petition.

For example, a hat manufacturer who is trying to increase his profits may work out cheaper methods of producing hats. If he succeeds in producing hats more cheaply than his com­petitors, his profits at first will greatly increase. But before long his competitors will copy his methods and produce hats as cheaply as he. Then, still under the urge of profit-seeking, they will all expand their production until the increased supply brings the price of hats down. Result: hats are cheaper; society is that much better off. People spend less for hats; and that enables them to buy gloves, let us say, which pre­viously they could not afford. The standard of living thereby rises.

That was the situation in Smith’s day. But before a generation had passed, the industrial revolution had begun and the sim­ple outlines of Smith’s picture were beginning to fade. Large­scale industry and the corporate form of business began to ap­pear. Great inequalities in bargaining and competitive power resulted, hindering the working out of principles that were originally laid down for conditions of small-scale, independent industry.
During the nineteenth century the corporation gradually assumed a more and more dominant position. Toward the end of the century the public became alarmed at the size and power of the large corporations. The Sherman Anti-Trust Act of 1890 was intended to protect society against the ruthless monopolistic practices that many of these large corporations employed.

But the corporation continued to grow in size and power. The fundamental reason for this was that the technical processes of production became steadily more and more roundabout, requiring larger and larger units for most efficient production. And the advantages of large size applied not only to production but also to research, to purchasing and to selling units.

At the present time, the corporation has become the typical form of business organization, and there is a great range in the size and power of these corporations. In 1929, there were about 300,000 corporations in the United States. The 200 largest of these corporations were all capitalized at over 90 million dollars each; several of them were capitalized at more than 1 billion dollars each. These 200 giant corporations were so large that although they constituted less than one-tenth of 1 percent of the total number of corporations, they owned 49 percent (practically half) of the corporate wealth of the country, and did 43.2 percent of the corporate business.

In this "giant corporation" half of industry, furthermore, a startling thing has happened. The ownership of these corporations has been very largely divorced from the control of them. In the case of some of the larger companies, no one man owns any more than 1 percent of the outstanding capital stock. In

3 "Tested by the best available measures of actual operating efficiency, it appears that consolidations have in general achieved an appreciable superiority in production over the independent producers in their respective fields." National Industrial Conference Board, "Mergers in Industry," p. 171, 1929.

4 Ibid, Ch. VI, "Industrial Research by Leading Consolidations."

5 "The concern which is large enough to undertake national advertising has a definite advantage over its smaller rivals." Recent Economic Changes, 1:217.

6 The figures in this paragraph refer to corporations exclusive of banking corporations.


8 Ibid. Appendices D and P, pp. 381, 382.
the case of the majority of the companies, the stockholders are so widely scattered that they have practically no voice in the management or control of their property. The control lies almost entirely, not with the owners, as in the small businesses current in Adam Smith's time, but with the management, the boards of directors. The men on these boards of directors thus become industrial autocrats. They are no longer subject to the will of the owners; they are very much a law unto themselves. And their power is increased by the fact that many of the men hold directorships in several different companies. These "interlocking directorates" concentrate control still further.

The structure of modern economic society is therefore greatly different from the system of small-scale individual industry that existed when the principles of individualism and free competition were first laid down. There is great inequality in the size and power of the business units that constitute economic society today. These units range all the way from a few hundred giant corporations at one end of the scale, to thousands of medium-sized corporations in the middle, and millions of small, individual producers, such as farmers, at the other end of the scale.

We speak of individualism, and of free and equal competition and bargaining power. But economic society today is not a society of individuals, freely and equally competing and bargaining. It is a society composed partly of individuals, partly of medium-sized corporations and partly of corporate giants.

INHERENT INSTABILITY

We have briefly surveyed the structure or organization of modern economic society. Let us now study how it works.

The doctrine of individualism takes the position that each man, if left to himself, in furthering his own interest best furthers those of society as a whole.

This proposition holds true insofar as individual productive efficiency is concerned, at least when full and free competition exists. But that field of action, productive efficiency, comprises only part of the individual's economic activity. The 1929 boom and the present depression have reminded us that
in another broad field of action, the individual in striving to further his own interests does not thus further the interests of society as a whole. Indeed, in this other field, the individual is more likely to injure society than to benefit it.

The field of action referred to comprises the natural efforts of men to protect their own interests in time of prosperity or in time of depression. Consider first the manufacturer. When the pace of industry slackens, it is to the interest of the manufacturer to discharge some of his men; but that cuts off those men's purchasing power, and that reduction in purchasing power throws other men out of work; that reduces purchasing power still further, and leads to more unemployment and depression.

The same thing is true of the consumer. When depression threatens, the individual consumer, acting in his own interest, begins to spend less money; he starts to save for the rainy day that is coming. This reduction in spending reduces the demand for goods. Production slackens accordingly, especially the production of capital goods; the employer, acting in his own interest, lays off some of his men. These men buy less than before, and production slackens still further; more men are laid off, and so on. Society is injured, not benefited, by these actions.

The case is also similar in the realm of banking. In time of depression, the prudent banker tries to get into as liquid a position as possible. He calls as many loans as he can, and becomes very cautious in making new loans. This drains money from other banks, which are forced to reduce their loans also. This curtailing of credit injures production. And if depositors become alarmed about the condition of their banks, each depositor tries to protect his interests by drawing out his money. This may cause the whole banking system to collapse, as indeed it did in March, 1933.

The situation is equally unsatisfactory in time of prosperity, for then each man is led to expand, his expanding causing further expansion on the part of others, and so on up. And the resulting boom paves the way for another crash.

There is thus an inherent instability in a system constituted as ours is now. When times are good, people are optimistic, they
spend freely, and times get still better; when conditions are bad, people are pessimistic, they spend less, and this makes conditions worse. All of these actions are natural and wise from the point of view of each individual. But they are very harmful from the point of view of society. In this sphere of activity, what is good for the individual is distinctly bad for society as a whole, and is therefore bad for the individual after all.

TENDENCY FOR INSTABILITY TO INCREASE

In a simple economic society, such as that which existed 150 years ago, scarcity of goods rather than inherent instability was the dominant feature. There was hardly enough food, clothing and other necessities to go round. Such instability as existed then resulted chiefly from occasional drouths and crop failures that made the general scarcity of goods more acute. There was little voluntary contraction of expenditures in those days. The standard of living of the great body of consumers was not far above the subsistence level; it could not be contracted very much no matter how black was the outlook. And in the field of production, the manufacturer's investment in plant and equipment was only an insignificant fraction of what it is at the present time, so that contraction or expansion there was only a small factor.

Today, however, the situation is different. The average American's standard of living is high. His income ordinarily is large enough that he can buy, not only the necessities of life—food, clothing and shelter—but also an increasing quantity of luxury goods such as an automobile, a radio, an electric refrigerator, artistic furniture, etc. Most of these luxuries are durable goods; they will last for a good many years.

Now the average consumer's purchases of necessity goods cannot be contracted very much in time of need (even though these include many goods and services that were considered luxuries a few generations ago), but his purchases of durable luxury goods can be very greatly contracted. The old car can be made to run another year, or can be laid up entirely; the purchase of the electric refrigerator can be put off; the old radio can be repaired, etc. The postponement of these pur-
chases of durable luxuries throws men in these industries out of work, and adds to the depression.

That is only one part of the story. Today, the processes of production are so roundabout, and the use of large plants and machinery is so extensive, that a large part of our industrial productive capacity is engaged in the production of capital goods—goods used in production rather than in consumption. Now it can be shown that a decline of 10 percent in the demand for consumer’s goods, such as clothes, may easily result directly in a decline of 50 or 75 percent in the demand for the machinery needed to make these clothes.⁹ The capital-goods industries, such as the steel, iron and machinery industries, therefore feel the effects of depression very markedly.

**EFFECT OF DIVERSE PRODUCTION POLICIES**

The tendency for consumers of durable luxury goods and of capital goods to restrict consumption during depression is accentuated by the production policies of the producers of these goods. Most of these goods are produced by large corporations, whose general policy is to hold the prices of their products as stable as possible. During depression, they attempt to hold up the prices of their products by curtailing production.

This production policy is the reverse of agriculture’s. During depression, farmers continue to produce practically as much as before, allowing prices to fall to a point low enough to clear the market. This is shown graphically¹⁰ in fig. 2.

This is sound policy for the individual farmer. Operating as an individual, he is practically forced to adopt it. The amount he produces is such a small element in the total supply that if he cut down his individual production he would merely reduce his own gross income without exerting any appreciable effect on prices.

But the policy of industrial corporations is to reduce production during depressions and hold prices up as much as possible. They followed this procedure during the present depression.

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⁹ See the statistics of production in the monthly Survey of Current Business, U. S. D. C. These show that during the depression the production of machinery decreased very markedly; in some lines, production entirely ceased.¹⁰ The data in figs. 2, 3 and 4 come from the monthly Federal Reserve bulletins and the monthly “Wholesale Prices” bulletins of the Bureau of Labor Statistics.
The situation for two of the largest industries in America, the one producing durable consumption goods (automobiles) and the other producing capital goods (iron and steel) is shown in figs. 3 and 4. It is significant that production in both of these industries is dominated by billion-dollar corporations.

This policy of reducing production and maintaining prices, rather than maintaining production and reducing prices, is characteristic of manufacturing industry as a whole. Most other branches of industry are less successful in putting this policy into effect than the automobile and iron and steel industries just discussed, but they achieve a considerable measure of success. Industrial production as a whole was reduced, at the lowest point of this depression, to 53.7 percent of the 1926 level; the prices of finished manufactured products fell only to 70.5 percent of the 1926 level.\footnote{The prices of "all commodities other than farm products and foods" fell to practically the same figure, 69.7. These indexes are all for July, 1932. They are given in the monthly bulletin, "Wholesale Prices," issued by the Bureau of Labor Statistics.} Contrast this with agricultural...
production, which stood at 94 percent of 1926, and agricultural prices, which stood at 47.9.

It is probably sound policy, from the point of view of the individual manufacturer, to reduce production during depression. Large manufacturing corporations adopt this procedure either because the demand for their products fluctuates greatly, or because their large size and small number gives them a controlling position in the market. The latter may be an important element. There is some statistical evidence that the larger the corporation, in general, the more does it hold up the prices of its products during depression, and the more does it reduce production, curtail its purchases of raw materials and discharge employees.\textsuperscript{12}

These differing price and production policies, adopted fundamentally because of differing demands and unequal competitive and bargaining power, may be the best for the individuals or corporations concerned, but they have unfortunate results for society as a whole, and therefore finally are bad for the individuals, too.

They render our economic system part rigid and part flexible, so that when booms and depressions occur, the prices and the quantities of different goods produced respond unequally. During depression, agricultural production continues at full capacity but at greatly reduced prices. On the other hand, industrial production is curtailed and prices are maintained as close to previous levels as possible. The whole system of balanced price and production relationships is strained and twisted out of shape. Economic dislocation, disruption and partial breakdown follows. After a period of recuperation,
when prosperity returns, that sets up strains and stresses of an opposite nature to those caused by depression. Our economic system is like a huge machine, part rigid and part flexible, that is continually being warped and twisted and thrown out of alignment so that it cannot work properly.

METHODS OF SOCIAL CONTROL

There is every indication that the characteristics of modern economic society outlined above almost inevitably become more and more marked in the future. Progress in research and invention is likely to be as rapid—perhaps more rapid—in the future as in the past. Productive efficiency should continue to increase (as far as the limits of productive ability are concerned), and the trend of the standard of living should continue to rise.

The movement toward the concentration of industrial production in fewer and larger corporate units that has been so marked in the past will apparently continue in the future; the tendency will be for the existing inequality of bargaining and competitive power to increase.

Because of these things, for the reasons given above, the tendency will be for the inherent instability of economic society to increase. This tendency is likely to prevail, unless methods of social control are worked out to counteract it. It seems inevitable that the price of further progress will be further instability, unless we apply research and invention in the field of social control as well as in physical production.

Some social regulation has been necessary in the past. A further extension appears necessary for the future. What form is this governmental or social regulation likely to take? There are several different methods or courses of action that might be chosen.

ENFORCE COMPETITION

One course of action, which began 40 or 50 years ago, focused attention on the more powerful elements in society. It was ex-

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13 The wealth of the 200 largest corporations at successive dates, that is, the 200 largest corporations then compared with the 200 largest corporations (not necessarily the same corporations) now from 1909 to 1928, increased at the rate of 5.4 percent annually; the wealth of the other corporations increased only at the rate of 2 percent annually. The business done by the 200 largest corporations increased from 33.5 percent of the total in 1920-23 to 40.4 percent in 1926-29 and 45.2 percent in 1929.

The movement in the future may not be as rapid as in the past from 1920-23 to 29, but is likely to be at least as rapid as from 1909 to 1928.
emplified in the Sherman Anti-Trust Act of 1890, in the trust-busting activities of Theodore Roosevelt, and in the Federal Trade Commission Act and the Clayton Anti-Trust Act of 1914. Its object was to enforce competition, wherever it was lacking.

The proponents of this method believed that whenever the competitive struggle is rendered unequal by the large size of one of the combatants, the large combatant should be broken down into smaller freely competing units. It was in this spirit that the United States Supreme Court in 1911 ordered the Standard Oil Company to dissolve into several smaller companies, more nearly equal to the size of the other companies in the field. Later on, the court changed its methods somewhat; under the "rule of reason" it adopted the policy of curbing, not size, but only the unfair competitive methods that were often associated with size.

This method has two great shortcomings. In the first place, it ignores the fact that in many cases the large-size concerns are the most efficient producers, so that it is to the interest of society to preserve that large size rather than to reduce it.

Second, the method attempts to enforce competition between individuals in the manufacturing group, but it does not even touch the problem of the unequal economic power of individuals in different groups in their dealings with each other. It does not touch, for example, the problem of the inequality between the individual piece-worker in his or her dealing with the sweat-shop operator, or the individual farmer buying machinery from a large implement manufacturer.

Accordingly, the method has been under fire (though not all of the attacks have been disinterested) ever since its inception.

\[\text{Published by Iowa State University Digital Repository, 1933}\]
The emergency legislation of 1933 temporarily suspended some of the provisions of the Anti-Trust Act, replacing them, however, with safeguards of a different kind, described below.

CONTROL MONOPOLY

A second policy, which received a good deal of public attention from about 1910 onward, differs rather sharply from the first. "It proposed to allow business enterprises to consolidate freely in order to obtain all possible advantages of large-scale production, and to subject them to commission regulation as soon as their size and power were such as to destroy the occurrence of keenly effective competition in a given field." Instead of reducing the power of the strong by enforcing competition, it aimed to leave their strength unimpaired, but to harness it to the interests of society by public regulation. More recently, the method has also directed its attention to the weaker individuals; it has sought to buttress the strength of the weak, as well as to control the power of the strong.

This policy recognizes the difficulty of trying to reduce the power of the strong to that of the weak. It recognizes that in many fields large-scale production means low-cost production, and that the larger the unit the more efficient will be the production of that stream of goods and services that constitutes the material basis of well-being. It, therefore, seeks to foster large-scale operation, instead of hindering it as the first method started out to do. Instead of breaking up the railroads, or prohibiting combination in order to enforce competition, it orders the roads to consolidate, reduce competitive wastes and operate as much as possible as a unit, and submit to proper public control of rates. Instead of trying to break down the power of large financial interests, it sets up the Federal Reserve System in an attempt to control them and the monetary system as a whole. In a word, this second method turns from efforts to enforce free competition, to a systematic attempt to regulate and control monopoly.

It thus endeavors to increase the power of the strong, and to harness that strength for social purposes. In addition, it seeks to strengthen the power of the weak; it plans to aid those

who act as individual persons—for example, the individual laborer, acting alone; the individual consumer, buying alone; the individual investor, buying securities of whose worth he knows little; the individual depositor in a bank; the individual farmer operating his farm; and so on.

Broadly speaking, this is the policy that is embodied in the 1933 congressional legislation. This policy is being invoked, not only because of the depression, but also because of the underlying changes described above that have been taking place in the structure and functioning of American economic society. The policy is the result of fundamental and persistent trends, and the evidence is that these trends will continue in the future. The policy itself, therefore, is likely to be maintained, and perhaps further extended, in the future.

It seems likely that America will extend the social control of business within the framework of democracy and capitalism. That is, the federal government will probably lay down broad outlines or plans in the interest of society as a whole. Within the lines thus laid down, free enterprise and individual initiative will be left to work, with such governmental regulation of the strong and assistance to the weak as appears advisable.

DOES MORE GOVERNMENTAL CONTROL MEAN LESS INDIVIDUAL LIBERTY?

Many people have observed the steady trend in the direction of increased governmental control during the past few decades, with increasing concern. It seems to them to mark a departure from the principles of individual liberty of action and freedom of enterprise which have been traditional in America.

Many people fear that if government control and regulation continues to increase, it will stifle individual initiative. To them, the aim of social control appears to be to glorify the state at the expense of the individual; and this runs directly counter to our ideal of giving the individual the fullest possible freedom from hampering state restrictions and regulations—our ideal of allowing only enough governmental interference (police protection, courts of justice, etc.) to insure the fullest possible freedom to the individual as such.
NO ABANDONMENT OF IDEALS

This alarm concerning our traditional ideals seems hardly justified. Free enterprise and free competition are not a system of individual liberty, to be contrasted with systems of social control. Free enterprise and free competition comprise, after all, only one method of controlling individual effort in the interests of society as a whole, and conscious social control is only another method for accomplishing the same end.

Free individualism is only a method of social control of the individual in the interests of society by the action of free competition. Where free competition exists, the individual thinks he is free; but in reality he is not free. In actuality, he is continually held in check by the competition of his fellows. The area in which he can exercise his freedom is often so circumscribed that his freedom is largely illusory. If he charges extortionate prices, competition draws his patrons away to his competitors and forces him to bring his prices down. If he pays low wages, his employees leave for other jobs, and he is compelled to raise his wages. Where competition really exists, it is a more ruthless taskmaster than any democratic government could attempt to be. Perhaps the clearest example of this is the condition of the farmer in 1932—completely “free,” yet ground down by 15-cent corn and $3 hogs into a condition of economic slavery.

The trouble is that under our economic system today, with economic power so unequally distributed, neither competition nor bargaining power is free and equal. In some fields, free competition is too wasteful and destructive; in other fields, it is reduced or restricted by the great size and small number of the producing units. Society recognized the inapplicability of the principles of free competition and individualism to some fields of industry—railroads, public utilities, banks, etc.—many years ago. It is now becoming clear that the characteristics of modern economic society outlined above, and the trend toward further inequality of economic power, call for a further extension of public regulation into the field of industry and of agriculture. This further extension appears necessary, not for the purpose of subjecting the individual to the state, but for the purpose of attaining the same ideals of indi-
individual liberty that the philosophy of free competition seeks but under modern conditions is not able to achieve.

ADMINISTRATIVE DIFFICULTIES

An increasing extension of governmental regulation of business appears inevitable. But the difficulties involved in this extension are truly staggering.

Consider first the international difficulties. Economic planning, so far, is a national affair. A managed currency, a managed price level, regulation of production, wages and prices—these extend no farther than the national boundary. But the depression has reminded us that we are living in an international world. Capital flows freely across national boundaries. Economic and psychological influences spread almost instantaneously from one country to another. An economic crisis in Germany, for instance, means lower hog prices in Iowa; Great Britain goes off the gold standard, and the price of wheat in Kansas declines. These international repercussions greatly increase the difficulty of carrying national planning into effect.

Domestic administrative difficulties are fully as great. The United States is traditionally the land of rugged individualism, and our established philosophies and habits of thought are not easily changed. This is particularly true of agriculture. The farmer has always been the individualist par excellence. In the past, those who wanted freedom from social and industrial restraints commonly migrated to the agricultural frontier to get it; and the tradition remains. It is also difficult to apply social regulation in agriculture because the producing units are small and the number of producers is great.

The pull and haul of sectional politics also hinder the proper execution of national economic programs. The more directly responsive such a program is to the needs of the people, the more susceptible it may become to the influence of "pressure groups" and sectional interests, unless an improved technique is worked out for reflecting the needs of the people as a whole.

Finally, a democracy can proceed on a national planning program only at rather a slow pace. It cannot put into effect measures which are very far ahead of the average voter's comprehension. Its program necessarily will deal with obvious
and immediate problems, rather than with the more profound and fundamental root problems of economic society. The emergency measures passed during the special session of congress in 1933 illustrate this point. Remarkable as they were, they could not far transcend the average citizen’s grasp and still receive support; accordingly they struck at the problem of maladjusted production among different industries (dealt with in figs. 2 to 4 in this bulletin) by the immediate and obvious method of reducing supply in those industries such as agriculture where production had continued at full capacity. Perhaps this method was dictated also by the emergency nature of the situation. But it seems clear that fundamentally, prosperity (that is, an abundance of material goods and services) calls for increasing production in industries that have greatly reduced production, such as the iron and steel and automobile industries, rather than for reducing production in those industries that have been running “full steam ahead.” But such a program, advisable as it might be, would be exceedingly difficult to work out and put into effect.

The problem of social control is much broader than any one group of emergency measures can solve. It is a problem that continually grows and continually changes. It will not be solved by the present emergency legislation as such, nor will it be solved by a return to free enterprise and individualism. The problem of rapid, safe and cheap transportation was not solved in a day, nor in a year, nor is it fully solved yet; nor would it be solved by a return to the horse and buggy. And the problem of social control is many times more difficult than the problem of transportation.

DIFFICULTIES WILL BE OVERCOME

But the problem of social control will be solved, partially at first and more and more completely with the passage of time. The pressure of economic forces will compel it. The question is not whether a great degree of social control is desirable. The fact is that it appears inevitable.

Society’s chief problem in the nineteenth century was the problem of increasing physical production; and to that end, all the resources of natural science and the experimental
method were brought to bear. But during the present century, another kind of problem has become increasingly important. It lies in the field of social science. It is the problem of providing an economic framework of organization and control, within which the accomplishments of physical, chemical and engineering science can find full range.

It is of small avail to increase productive efficiency 20 percent if in the process our economic machinery becomes so disorganized that 25 or 30 percent of our working force is unemployed, as it was early in 1933. The remedy is not to stop progress in productive efficiency; that must continue to increase. The remedy is rather to match progress in production with progress in economic organization. The great impediment to the march of human progress today is not lack of productive power but lack of economic organization.

SUGGESTED READINGS


McCracken, H. L. Value theory and business cycles. Falcon Press, Inc. 1933.
