V. Further Needs in Business Preparation for Stability and Growth

Along with further progress in those government policies which affect business, the record of recent years leads the Council confidently to anticipate further progress in business thinking and practices. This will help our business system to maintain that major responsibility for the condition of our economy which is ascribed to it under the American combination of free enterprise and free government.

FURTHER ACCEPTANCE OF "MAXIMUM" OBJECTIVES

First of all, our business system needs to embrace even more fully—as its enlightened leadership has already done—the goal of continuous maximum production and employment. This is not to say that so high a goal is readily obtainable. Possibly some periodic setbacks of moderate size are the price we must continue indefinitely to pay for the freedom and flexibility which make our system so dynamic in the long run. But this is entirely different from saying that the setbacks are desirable as well as difficult to avoid. Very few businessmen really believe that the drop in the industrial production index by about 16 percent, and the increase of unemployment by about 1½ million, which took place in 1949, left them with a more confident feeling than if a better balanced expansion in 1948 had prevented this decline. We are recovering from that downturn because of the strong elements in our economy, and not because of the deficiencies which generated the downturn. As our system learns to develop still stronger elements, even if it does not succeed in maintaining continuously maximum levels of activity, the downturns can become more moderate and the upturns can become more certain.

Nobody should confuse the classic theory of how downturns occur with the erroneous belief that they are helpful. Saying that a downturn in production and employment is an adjustment of supply to demand may be true; but supply and demand were thus "adjusted" even in 1932. Saying that a downturn is inevitable, when backlogs of demand accumulated during a war period are worked off, may be a correct observation about the past; but it is simply another way of saying that we have not yet learned how to make full use of our productive capacity in peacetime. It is better to aim constantly toward maximum production and employment, because this will in the long run make our think-

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ing clearer and our achievements greater, even though we have not yet learned enough to reach this objective fully every year.

FURTHER REALIZATION THAT PUBLIC SENTIMENT AFFECTS THE ECONOMY

Occasionally it is said that a level of employment below the maximum is desirable because it makes workers more efficient and improves productivity. Quite aside from the lack of scientific verification of this proposition, the Council feels that even more businessmen will come to recognize—as so many now do—that public sentiment toward mass unemployment is just as much a part of our economic life as the public's attitude toward buying particular goods or spending particular portions of its earned income. And whether unemployment is "too high" depends as much upon what the unemployed think as upon what business thinks, just as whether prices are too high depends as much upon what the buyer does as upon what the seller says. Social and psychological considerations will come to enter more and more into business action because they are a part of the environment in which business is done.

Since mass unemployment tends to build up resentment (whether rightly or wrongly) against free enterprise, it injects a threatening element into business life and prospects which is enormously important. Efficiency, even if it could be purchased at the price of so vast a danger to our business system, would not be worth the buying. Our economic system is strong enough to be sufficiently efficient without undergoing this oppressive risk. And because every mass increase in unemployment tends to shift the location of authority and decision from business toward government, business has additional cause to strain every effort towards its prevention.

NEW BUSINESS ATTITUDE TOWARD "POLITICS"

Of course, government is a "political" process, just as the Constitution of the United States is a "political" document. But no businessman should resignedly take the position that it is futile to attempt to influence public policy because he is outnumbered by workers and farmers and "the government counts instead of thinks." Neither business nor any other group can offer any workable substitute for the processes of democracy, because there is none. Further, democracy is the system which affords the best opportunity for those with the qualities of thinkers and leaders to make their weight felt although they are outnumbered. These qualities exist in abundance in the business world.

Some of the best friends of business, who are neither in government nor in business, are now urging businessmen to assume increasing responsibility for participation in public affairs. This is a good thing.

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CAN BUSINESS ACTION ACHIEVE SUFFICIENT CONCERT TO PROMOTE STABILITY?

Successful efforts to combat serious economic downturns must be concerted. They must be on a massive scale, because the economy is huge and acquires tremendous momentum when it starts definitely upward or downward. The main advantage offered by government policy in resisting economic fluctuations is that government can act on this massive scale. The extent to which free enterprise can enlarge its necessary contribution to economic stability hinges upon methods whereby business itself may act more effectively and thus deliver a more massive blow against the forces of deflation.

The dilemma is this: businessmen *individually and separately* may react to the beginning of a downturn, or even to its prediction, in sufficient numbers cumulatively to accentuate the downturn. But no sufficiently satisfactory way has yet been found for businessmen *individually and separately* to respond to the beginning or prospect of a downturn in a manner which cumulatively holds the economy stable or propels it upward. This is the real meaning of the importance of "business psychology." Businessmen at certain stages in the economic process take so seriously the first signs or predictions of a downturn that the prediction may become, as the Council said in its First Annual Report, "the engine of its own verification." If businessmen under such conditions could follow *in sufficient numbers* policies contributory toward stability or growth, or at least act in a manner consistent with the proposition that the long-range trend of the economy is upward, this might provide a key to the dilemma.

There are two lines along which such action by business may be facilitated. The first is by more common study and education of how the economy works and what policies may be most salutary at various stages in the economic process. If the results of such inquiry were sound and obtained sufficient acceptance, individual businessmen might act (without the kind of concert which could be against good policy) to cumulate the forces of stabilization and growth instead of cumulating the forces of downturn.

That this is not too much to work toward is demonstrated by the economic history of 1949. The Council finds one explanation of why the recession of the first half-year was so contained in size and duration in this fact: businessmen all throughout the postwar period, and particularly during 1949, exhibited far more economic understanding translated into practice than in those past periods which presented them with somewhat comparable difficulties. To be sure, there were mistakes of price policy and other policy during the inflationary boom. But in contrast with the period following World War I, the management by

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business of its inventory and pricing policies was definitely superior. Similarly, the fact that business knew enough not to react to the first signs of the downturn by wage cuts or by layoffs (beyond the minimum in the face of dwindling markets) was a sustaining factor along with the sustaining influence of many public policies. There is no reason why this behavior pattern exhibited in 1949 cannot be accentuated in future years.

However, the Council does not feel that the forces making for a downturn in early 1949 were sufficiently powerful to put our business system or our government policies to as severe a test as may occur at a later period. Consequently, we feel that in order to be safeguarded against the possibility of more ominous danger at some time in future, the process of study and education and understanding needs to be carried much further by every feasible means.

Moreover, we feel that such study and education and understanding may not be enough—even when added to vigorous public policies—unless it is accompanied by improved institutional arrangements which will come nearer to assuring consistent and massive private action on a much broader scale than was exhibited even in 1949. Therefore, as a second line of action, we favor further exploration of how these institutional arrangements may be developed and made most effective to expand business activity without that kind of collaboration in restraint of trade which the Sherman Act wisely condemns. In the final section of this report, we make some reference to meetings of management, labor, and others to explore some guiding principles for private economic policy on a voluntary basis.

These considerations, and in fact all that we have said in this report, shape our thinking about the kind of fundamental study and analysis most relevant to foreseeable economic problems in the United States. We now turn to a somewhat more detailed description of the kinds of economic study which we believe should engage economists, businessmen, labor and farm organizations, and all those most deeply concerned about economic stability in the months and years ahead.

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