# II. Trends in Government's Attitude Toward Business

The attitude of government toward business has always been favorable, in the sense that responsible public servants have always wanted our free enterprise system to thrive and prosper. The course of events shows that many of the public policies adopted over the years have contributed toward the strength of the economy, although they are always subject to refinement and improvement. Governmental thinking has never been static, and it may be helpful to try to discern recent trends under the impact of experience.

No one person can speak with absolute certainty or comprehensiveness about these trends. The minds of various men and women in our public service are not melted down and fused into a single instrument. Policies and pronouncements, even when by the President or by the Congress—and many others decide issues and make statements—reflect a range of training, temperament, and viewpoint as wide as those in any other sector of our national life. However, while the Council can speak only for itself, we believe that from our strategic point of observation we can detect a prevailing trend of thinking about our business system and its problems.

### FROM THEORY OF STAGNATION TO PRACTICE OF GROWTH

The first trend in the attitude of government toward business seems to the Council to be this: the doctrine of secular stagnation no longer finds place in any important public circle with which we are familiar. During the depression years, a significant body of thought held that the forces of business expansion had spent themselves and that government must provide the dynamic force for renewed growth. The thought may have had some relevance then; and the persons who held it developed some useful devices. But today the doctrine of secular stagnation has been replaced, in our judgment, by the firm conviction that our business system and with it our whole economy can and should continue to grow. This is illustrated by the statement of President Truman that we can achieve a 300 billion dollar economy within a very few years. We regard it as an historic event when the occupant of the most persuasive office in the world acts upon the proposition that our business system has further opportunities which transcend even those it has seized upon in the best previous decades. A member of the Cabinet, the Secretary of Commerce, has recently applied the same realistic approach over a longer time span.

This sentiment on the part of important officials would be significant without independent verification, because it would have a controlling effect upon their attitude toward the business world. But we also note the recent corroboration of these growth assumptions by non-governmental economists who are highly regarded by businessmen as being unusually conversant with their problems.

### FROM "MORE FOR SOME" TO PROGRESS FOR ALL

The second important trend which the Council senses in the attitude of government toward business is the realization that efforts to promote expansion of the total production and income of the economy are more significant than measures to "redistribute" the current product. In an economy foredoomed to inability to provide an adequate or rising standard of living for all industrious families, there might be some reason for according the resharing of output priority over efforts to increase output. The rationing resorted to by people in time of famine is an extreme illustration. But the notable expansion in production which our economy has achieved in the past and can certainly repeat or excel in the future, coupled with the observed fact that this so much lifts the general standard of living, should receive foremost consideration in economic programs and policies.

Of course, we cannot postpone efforts to improve the lot of the underprivileged until they can be lifted to reasonable levels by the lever of general growth. And measures directed specifically toward improving the productivity and incomes of low-income groups have favorable impact upon the whole economy. At the same time, primary emphasis upon general growth offers a more workable formula not only for the business community but also, the Council believes, for other groups as well. For once it is appreciated that the general growth of the American economy can create within less than a generation a truly good standard of living for all, then there is reduced to manageable proportions the ancient conflict between social equity and economic incentives which hung over the progress of enterprise in a dynamic economy.

### FROM SOCIAL THEORY TO ECONOMIC "BALANCE"

The third important trend in the Government's attitude toward business, as viewed by the Council, arises from fuller realization that the flow of income to different parts of the economy should be viewed as an economic no less than a social problem. Certainly a people's ultimate objectives are social, being concerned with well being, and social thinking will never lose its utility. But the application of more precise economic analysis to problems of income flow will yield benefit to all by reducing the problems of ways and means to soluble terms.

The use of economic analysis to refine and sometimes reformulate social theory will help to broaden the areas of understanding and agreement, without which the tensions and conflicts in a free economy of large organized groups might in the end become unbearable. That unsocial socialist George Bernard Shaw argued in one of his famous books written for American women that the only sound income distribution was absolute equality, since nothing else could be called "fair" in the absence of any precise measurement of the relative productivity or relative need of everybody in the community. While this is a *reductio ad absurdum,* it illustrates that contending individuals or groups in a free society could never arrive at viable agreements as to what share of national income each should get by the unalloyed application of social principles. Any effort to apply such principles fully or even excessively would involve the whole nation continuously in fracas and confusion.

Concentration upon the central objective of a stable and expanding general economy identifies more manageable although still difficult approaches to the problem of income flow. It then becomes possible, albeit not easy, for businessmen, workers, and farmers to seek that share of the total product which is most conducive to the progress of the whole economy and thus to their own best interests in the long run. The same approach should be used to evaluate those government programs which channel the flow of income from one spot in the economy to another, to test whether these programs promote general stability and expansion or rob Peter to pay Paul.

The nub of the problem of economic "balance" is to encourage sufficient funds and incentives for the growth of productive facilities which fully absorb our technology and manpower, while promoting sufficient flow of income to ultimate consumers to clear the markets of goods and thus to avoid periodic "overproduction." The Secretary of Commerce has put forward this idea of "balance" so cogently that it deserves repetition:

> As we look down the road ahead, what do we see? Standing squarely and obstinately ahead of us on the road to a richer America is one great question mark. How shall we divide equitably among consumers, labor, management, capital, agriculture, and government their shares of our production? People are called liberal, radical, conservative, or reactionary depending upon the way they approach this most difficult of all our economic problems. Some pessimists say that there is no solution to this problem but the one resulting from the struggle between organized groups. They say that capital always wants more than its fair share of production, that labor will never be content until it takes all of the profit out of business, that farmers will not rest until all other groups are supporting them, that government officials will not be happy until they manage the whole economy and become the only privileged class in America. I am not so pessimistic. Many businessmen understand that business success depends upon well-paid, self-respecting workers and upon the ability of the public at large to buy what business produces. Many workers understand that business cannot operate at a loss, and that some return on capital

investment is proper. Many farmers realize that other groups are entitled to consideration and that the farmer is not cultivating a fenced-off lot.

We have not yet reached the time when these groups forget their special interests and talk out their differences in a spirit of sweet reasonableness. However, we have made and are continuing to make progress. Most Americans now understand the importance of business investment as well as the importance of mass purchasing power. We have passed the time when intelligent Americans use the word "profit" as a curse. I believe all of us can agree on the fundamental principle that profit is good when it is reasonable and when it is used to produce more of the things we need.

To this problem we must apply the idea of balance. What division at any given time will promote the smooth operation and further the balanced growth of our economy? To answer this question we must know as much as possible about our economy and we must also be willing to abide by the facts. In other words, we should bring to the solution of our problem scientific analysis and a scientific attitude of mind.

When this general idea of economic "balance" is translated into the factual analysis which alone can give it practical significance, it becomes crucial that the business world appreciate the motivation underlying such analysis. We may illustrate by citing some of the previous work undertaken by the Council. During the postwar inflationary boom between 1946 and 1949, we took the position that the bunching of unusually high profits and an unusually high level of business investment, accompanied by price-income developments which did not seem to promise sufficient consumer demand to maintain maximum employment and production when certain temporary props were removed, should not be viewed with equanimity. This did not mean that we were adverse to profits or profit-makers or were throwing partisan weight on the side of the consumer or wage earner.

Such was not our position. We simply foresaw in 1947 and 1948 that the "balance" between investment and consumption, while compatible with a very high level of activity in 1947 or 1948, could not be sustained indefinitely and that a new "balance" would need to be struck for a growing peacetime economy. We were concerned that, as profits declined during the transitional striking of this new "balance," business might have become fearful and contracted investment and employment unduly. This would have accentuated the downward spiral. Instead, we urged recognition that a temporarily lower level of return than the 1947 or 1948 level was inescapable for a while. If this was recognized, then, when the economy had passed safely through the adjustment tests, profits and investment along with consumption could again resume an upward course as the economy in general moved upward on a noninflationary basis.

Nor were our comments about the relationship between prices and consumer incomes during the inflationary boom intended to suggest that consumption between 1946 and 1949 should have been higher when there were no more goods to consume. The point rather was that looking forward to 1949 and succeeding years, when bottlenecks would be broken, productivity increased, and the plant and equipment improvements of the reconversion period fully felt, the price-income structure would have to readjust to the expanding volume of consumption needed for maximum production, employment, and business opportunity. We advised business that some of these price-income adjustments should be started early and made gradually, for experience indicated that if too long delayed and then subsequently bunched over too short a period of time the consequence would be a dangerous decline in business activity. This in turn would cause profits and investment, the most volatile parts of the structure, to decline even more rapidly.

Fortunately, the practices of more and more representatives of the business community are coming to conform more closely to the tenor of what we have said. In the early 1949 recession, the majority of businessmen did not react to lower profit margins or prospects by the erstwhile traditional acceleration of cutbacks, rapid price deflation, wage reductions, and layoffs. Some occurred, but they generally took place with moderation and discernment. Many businessmen realized that we were working our way toward a better "balance," and that if they maintained steady nerves through a short but perilous phase the fundamental strength of the economy would turn us again upward. This does much to explain what transpired during the second half of 1949, although the march to maximum production and employment is still to be completed.

Our conclusion that in the long run a "balanced" economy would require the expansion of consumption opportunities at an even more rapid rate than the expansion of investment—although both should grow—has been matched by the similar findings of many nongovernmental economists. It is not the Council's purpose here to vindicate its own specific conclusions. We merely point out that our approach departs from the earlier and narrower perspective sometimes applied by economists; and that many of our profession are now in accord with our views.

## TOWARD MUTUALITY OF INTERESTS

The fourth advance in the attitude of government toward business, as appraised by the Council, derives from the three already listed. The problems of our economy appear no longer primarily as problems of protecting the shippers of the West from the "interests" of the East, or the farmers of the South from the bankers of the North, or the workers in general from the industrialist class, or the consumer from the farmer. To be sure, government still has the function of preventing any one group from taking unfair advantage of another, and laws and administrative devices are necessary for this purpose. But national economic policy should center mainly upon the basic interdependence of the long-range interests of various groups. If we are to endure and grow as a nation, the things which unite us must become infinitely more important than those which divide. The function of government is, without favor or preference, to test each of its own actions by the long-run common good. Moreover, government should stimulate that thinking and analysis by business and other elements in our free-enterprise system which will help them to advance the general economic welfare and thus to reduce the requirements for public supplementation.

In an expanding economy, the lifting of low-income families to a far higher standard of living, the improvement of agricultural programs consistent with the needs of urban consumer incomes and also promoting parity of income for the farmer, the provision of adequate funds for a rewarding level of business investment and profits, and the meeting of our domestic welfare and international security requirements, are not incompatible objectives. Attainment of each objective is inseparable from attainment of the others.

### REGARDING BUSINESS SIZE AND PRACTICES

The Council finds the fifth trend in the attitude of government toward business related to the size, structure, and behavior of business organizations. No thoughtful person within government wants to abandon or vitiate the "antitrust policy." The stultifying results of excessive cartelization in some other lands gives renewed evidence of the prescience of those who wrote the Sherman and Clayton Acts and established the Federal Trade Commission. Still, it is important to realize that our industrial problems have changed continually and require recurrent examination. Under our system of law and administration, many adjustments to new situations are made interstitially without organic reconstruction of the legal framework. These adjustments have been going forward over the years. The process is never finished.

In a stable and expanding economy, there is room both for well conducted big business (with its unique facilities for scientific and developmental experimentation) and for small business with its display of individualism and self reliance. Small business should be protected from any predatory practices by its larger neighbors, and all business should be protected against unfair competitive practices by units of any size. Yet the truth at least in part is that small business is threatened not primarily by big business but rather by big instabilities in the economy. When the economy attains full prosperity and is moving upward, small business in general does very well; but when the economy hits the toboggan many small businessmen are ruined not because they are less efficient than big business but because they are weaker and have fewer sustaining resources. An economy that grows steadily, as our economy can, would provide manifold opportunities for small business. Small business has some unique problems of obtaining financing, and more efforts should be directed toward solving these problems.

We are still a long way from having completed the necessary rethinking of problems involving business size and practices. Much more work needs to be done. It should proceed in a spirit of fair objectivity toward business both large and small.

### FROM MERE POLICING TO AFFIRMATIVE FACILITATION

The Council would describe the sixth trend in the attitude of government toward business as being away from the purely negative or policing function and toward the affirmative or facilitative approach. Our economy has become too complicated for government to function best simply by placing "don't" signs all over the lot. Some things, of course, the government must continue to prohibit or regulate—and regulation may be focused in part upon affirmative objectives. But the central problems of economic "balance" require adjustments which cannot be achieved mainly by regulation. For example, regulation is inadequate to correct an economic situation in which business might not receive the incentives to stimulate a high enough level of investment. Yet an inadequate level of investment can probably wreak economic havoc. Consequently, the fiscal, credit, monetary, and other facilitative operations by which government may promote an environment conducive to business expansion are at least as important as the more traditional watchdog functions. Those government policies and programs which affect farm income, industrial wages, or consumer incomes are also of prime importance and call for increasingly thorough and objective analysis.

### AWAY FROM SPECIFIC CONTROLS

The seventh trend which the Council observes in the attitude of government toward business relates to specific controls. The war made these controls necessary. In our judgment, they were abandoned too soon and could have been helpful in curbing the inflationary boom, and rent control is still necessary. A better understanding between business and government might even make it possible to have a broader range of restraining measures available in reserve without concern that they would be used prematurely or excessively. However, in the current and foreseeable economic situation, it is far less important even to contemplate the restoration of the specific controls than it is to realize that they do not for the long pull answer the basic economic questions confronting the American economic system. In peacetime, the mere authority to fix prices or wages does not in itself answer the question of what relationship between prices and wages will be fair to all concerned and most conducive to economic stability and growth. The answer resides in improved economic understanding rather than in fiat. Nor, in peacetime, does the mere presence of control authority upon the statute books obtain the popular understanding of price-wage problems essential for their workable adjustment; and if this popular understanding exists, we should in peacetime find better ways than specific controls to translate

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it into action. The Government should use its fiscal and monetary powers to promote economic "balance," and supplement these with such well accepted programs as farm price supports, social security, minimum wage legislation, developmental programs, etc. The other phase of the task of promoting "balance"—which resides in the continuing adjustment of prices and wages and profits—should be left to the actions of managers and workers within our business system itself.

### FROM "COMPENSATORY" THEORY TOWARD MORE RELIANCE ON ENTERPRISE. AND A WORD ABOUT KEYNES

The eighth, and in the Council's judgment the most important trend in economic thinking within government as we observe it bears upon the respective scope and weight of public action and private action in promoting stability and growth. During the mid-1930's particularly, there grew up an influential school which held that our free enterprise system was necessarily subject to violent fluctuations which could not be ameliorated substantially *within* the system. It held that only government action, mainly through enlarging or contracting the volume of taxation and public spending, could fill in the gaps in employment and production when these became large or curb inflation when it became dangerous.

The experience in the 1930's, however, demonstrated that when the private economy ran sufficiently far downhill "compensatory" action by the government became entirely necessary but *was not alone sufficient* to restore and maintain satisfactorily high levels of general economic activity. The reason for this was not simply that the "compensatory" action was not big enough. The fact was—and still is—that the range of useful projects susceptible to undertaking by government cannot be sufficiently voluminous to counteract fully a general depression—even when coupled with tax reduction. Further, public action beyond certain levels or in certain fields may be offset by declines in private spending and investment, so that the net gain is not equal to the total number of public dollars spent. Similarly, in fighting inflation, mere increases in taxation and reductions in public spending, while useful weapons, are difficult to employ fully enough to curb inflation without bringing on an excessive deflation. Nor do these fiscal measures alone deal adequately with the internal maladjustments in the price-income structure which are primary sources of danger in the kind of inflation that we have recently witnessed.

This leads to the conclusion that "compensatory" public action can help to iron out minor fluctuations of the business cycle and must indeed be used if big ones develop, but that complete recovery from a substantial downswing depends primarily upon the revival of private investment. And because that revival becomes progressively harder to accomplish as the economy moves further downward, the main concentration of economic policy should be upon encouraging stability and growth within our free enterprise system itself. This is doubly true in a prosperous period like the present, when action is feasible before the eleventh hour.

Many government policies, if appropriately designed, can place foremost emphasis upon encouraging steady business expansion and thus minimizing the fluctuations in business activity. This approach is sometimes referred to as creating a climate favorable to business. This is true although the responsibility does not lie wholly with government. Within enormous areas of action and decision, business holds within its own hands the factors which condition its course. This is the essential nature of a free enterprise system, and business should be encouraged when government recognizes this cardinal fact.

Despite all efforts by business and government to promote steady growth, "compensatory" policies form an important part of the techniques to be used for stabilization purposes. The difference between the exaggerated use of the "compensatory" approach and the Council's approach is a matter of degree or emphasis. This problem is further treated in a later section of this report which stresses the need for somewhat more stability in national economic policy.

Sometimes the purely "compensatory" approach is referred to in popular discussion as "Keynesian economics." In fact, Keynes placed more emphasis upon structural problems than upon the cycle. Lord Keynes was too sizable an economist and too enterprising a technician for us to attempt to evaluate his great work in a report of this kind. We shall content ourselves here with saying that, insofar as any popular version of the "Keynesian economics" identifies it with the school which placed exaggerated stress upon "compensatory" action, that school is neither representative of our own thinking nor in our opinion characteristic of any important segment of government thought today.