

To the Members of the Board:

Following this memorandum you will find mimeographed an article from the January 19 issue of The United States News. It is not an authorized preview of administrative policy, but is presumably a good piece of reporting.

The article goes into detail in a variety of policy areas, with the provision of jobs for 60,000,000 workers as the main objective. In this it agrees with Senator Murray's more direct and detailed proposals, although the figure is not given in the proposed Act itself. It has been used by the President. It is also in general agreement with Mr. Beveridge's objective of "full employment," which Dr. Hansen defined to us at our last meeting as having "more jobs looking for workers than there are workers looking for jobs".

Providing 60,000,000 jobs which are looking for workers would seem to be a translation into American terms of Mr. Beveridge's definition. It represents a higher percentage of our population employed than we have ever had (except in wartime) since our early dependence on a low-level agricultural economy. Were our general standard what we can now make it, it is doubtful if 60,000,000 people would want to work. It is doubtful if 60,000,000 ought to work for a living. Perhaps 55,000,000 is nearer right. If we are really successful in high productivity, the figure may be nearer 50,000,000 for a population of 130,000,000.

The less successful we are in our productivity and resulting living standards, the more necessity for labor by youths who should be in school, by girls who should be married, by mothers who should be caring for their families, and by old people who should be resting after a lifetime of useful effort.

Whether it be 60,000,000 or 55,000,000 or what, the determination to provide more jobs than there are workers will, in my opinion, lead in a short time to serious social disorder. It will mean the perpetuation in normal peace-times of the wartime wage and price relationships which have made wage and price controls necessary. If such controls were necessary in war, when both employers and employees were strongly affected by patriotic emotion, they will be needed still more in peace-times, when the pull of immediate self-interest is stronger and the common interest less obvious and emotionally weaker.

If this is true, as I believe it to be, we will have a continuance of governmental control of prices and wages, which in a peace-time economy can only mean such a centralized authority and such destruction of individual initiative by both employer and employed as will quite justify Hayek's prophetic fears.

As against this fear, the belief is expressed that management and labor will be educated in due time to arrive at wise agreements. This argument takes for granted the moral perfectability of the human race. Numerous social experiments have foundered on this shoal.

The successful direct management of wages and prices calls for more than perfectionism in morals. It calls also for a perfectionism in intelligence

which approaches omniscience. More than one official of O.P.A. has been astonished at the far-reaching and unexpected results of his actions. He cannot foresee these results, nor can the officials who set wage rates; nor can producers and consumers and employers and employees be convinced that the imposed judgments are wise and just.

The only hope for a centrally managed economy, toward which I believe the Administration-Murray-Beveridge plan is driving us, lies in a drastic simplification of our economy, through standardization of products and regimentation of distribution and consumption. The thought is attractive to the mechanistically-minded social dreamer, but it will be rejected by men who value freedom.

All the foregoing requires that an alternative be set forth. The alternative to central planning and control is a profit system, under controls adapted to its essential nature.

The profit system has demonstrated its usefulness as an organizing principle for human society. It takes into account the fact that the human race is not omniscient and perfectly benevolent. It guides the millions of separate human decisions into channels which exhibit a steady progress in material well-being for whole nations, for many generations.

That progress has not been unbroken. In particular, it has been subject to recurring depressions. These depressions demand our most earnest study. They require the same earnest study as is given to sickness in the human body. Their control may likewise require medications, perhaps surgery in critical situations. But the great advances in general health have been made by improved hygiene, with a lesser dependence on more drastic measures.

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We need more intense study of the hygiene of the profit system. We cannot safely permit these recurring illnesses of depression. Can they not be as successfully brought under control as have been the illnesses of the human body? Is it not perhaps significant that the Great Depression lasted far beyond its term, perpetuating mass unemployment right up into the beginning of war production, under recovery policies based on suspicion of our fundamental principle of social organization--the profit system?

In the past the princes of private business have been puffed up with pride as they viewed the expansion of industry and increase of production made under their control. Had they seen the picture more clearly, they would have realized what a minute part their own decisions played as compared with the millions of determinations continuously and automatically made by this organizing principle of our society.

This same baseless pride threatens the economist and planner, as he views the deceptive ease with which such a large part of our economy is managed and lays his plans for moulding it more nearly to his heart's desire. It is not managed by any man, or any group of men. It is in the control of this natural organizing principle--the profit system. To get along without it requires perfection of morals and perfection of intelligence. To work against it, or to endeavor to control it without understanding it, invites disaster.

Finally, may I express my own conviction that our old social system, under improved hygiene, will make it possible for those able and willing to work to find profitable work without serious delay or hardship. Such a goal is attainable and is a worthy objective of our industrial society.

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January 29, 1945.

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The citation for the original is:

*United States News*, "A Double Budget for U.S.: Guide to Full Employment – More Spending by Consumers and Business As Way to Make Work," January 19, 1945.