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National Planning Within the Free Enterprise System

By GLENN E. HOOVER

THERE IS A GROWING BELIEF that we are entering an Age of Planning, but the plans thus far produced are few in number and rather misty in outline. We have nothing analogous to the Beveridge Report, and even at the crack-pot level, our output of plans is far below what it was when the Great Depression provided so many with abundant leisure.

Since almost all economic plans involve governmental action, the President created a National Resources Planning Board whose report was transmitted to the Congress in March, 1943. The Congress looked at the report—presumably—and refused to renew the Board's appropriation. At the very threshold of the Planning Age, the Congressional economy axe, rusty from long disuse, cut down what might have been the most significant agency in Washington.

The people's representatives, even in their recent malevolent mood, might not have delivered this *coup de grace* if the Board's personnel had been more distinguished. The men of Capitol Hill, to reassure themselves, are wont to administer an official boot to somebody or something at irregular intervals, but they are human enough to prefer to kick the weak rather than the strong. To say that the Board was weak is not to pass judgment on the capacity of its three members, but that it lacked prestige will be evident to every reader who tries to recall the name of any one of them. Wisdom, of course, may come from the mouths of the unknown as well as from babes and sucklings but in these hurried times the contributions of the unknown are but lightly esteemed.

Despite the relative obscurity of its authors, the report might have exercised greater influence had it not provoked

serious criticism from competent and non-political observers. Professor Myron W. Watkins, reviewing the report in *The American Economic Review* for September, 1943, described the Board's "Plans for Action by State and Local Governments and Regions" as "so nebulous that they scarcely deserve to rank as plans." The Board stressed the need for "assisting" the conversion of private industry, "readjusting" war boom towns and "strengthening" employment service. To which, Professor Watkins retorts: "In reality, this is not planning at all; it is preaching." And he asks: "Are the canons of candor and plain-speaking satisfied by a plea for 'a dynamic economy . . . with a fair distribution of the resultant gains?'" Insofar as the report is vague, windy and redolent of reform, it does indeed smack of preaching, in the very worst sense of that word, and the prestige of the report and the Board itself, suffers accordingly.

Another defect of the report is that, while professing to rely on the expansion of the free enterprise system, it shows little understanding of the operation of that system or the institutional framework it requires. Although the report does not disclose the ideology on which it is based, *The New Republic*, which hails it as a "Charter for America," insists that "it is the culmination of a considerable history of economic thinking," the basic idea of which, "comes partly from the socialist tradition" and from "men like Thorstein Veblen, John A. Hobson, Mr. Justice Brandeis, Lord Keynes and Alvin H. Hansen."¹

These are indeed distinguished men, but a report based on their economic theories should show some awareness of the opposition they have encountered. That we may rely on "pump-priming," remain indifferent to a growing national debt, and dispel depressions through governmental control of investment are ideas which fall far short of being generally

¹ *The New Republic*, Part Two, April 19, 1943.

accepted. The one living American on whose ideas the report was chiefly based (if *The New Republic* tip-off is correct) is Alvin Hansen, and, with no attempt to disparage him, it may be said that his ideas find readier acceptance in Washington than among his fellow economists.

The Way to Full Employment

THE REPORT IS WIDE in scope and we must limit our observations to the section entitled "Plans for Underwriting Employment." In view of the importance of this problem it is surprising to find that the Board disposes of it in the four recommendations which follow:

1. "Formal acceptance by the Federal Government of responsibility for insuring jobs at decent pay to all those able to work regardless of whether or not they can pass a means test."
2. "The preparation of plans and programs in addition to those recommended under Public Works, for all kinds of socially useful work other than construction, arranged according to the variety of abilities and location of persons seeking employment."
3. "Expansion of the functions of the Employment Service."
4. "Establishment of a permanent 'Work Administration' under an appropriate Federal agency to administer the provision of jobs of socially desirable work for the otherwise unemployed."

These proposals seem to add up to a bigger, permanent and more costly WPA, which certainly heads the list of things we are not fighting for. No Dr. Gallup is needed to discover that the American workers prefer, instead, jobs in private industry. The Board, however, by its emphasis on unemployment insurance and the WPA device, takes at the outset a defeatist position with respect to the outlook for full, private employment. It seems never to have considered the possibility of using public funds to stimulate private employment, a solution which would involve no "means test," no loafing on public pay-rolls and no large administrative bureaucracy.

The present war has demonstrated again (and, let us hope, for all time) that the government, by the expenditure of public funds, can call forth the maximum utilization of our human and natural resources. In other words it can assure full employment and this it can do without putting the unemployed on the public pay-roll. It need only subsidize the private production of the goods and services we need—military supplies in time of war, and civilian goods in time of peace. We are beginning to learn that the nation may profit from the expenditure of public money to increase our housing, improve our highways, provide more bath tubs, refrigerators, locomotives, motor coaches, etc., even though they are not to become government property. Our people will benefit from them as much or more than if they were owned and managed by the government. When we once realize that the only practical alternatives to the subsidization of such production are the dole or the WPA, the issue will not long be in doubt.

The Neglected Problem of Wage Rates

ANY GOVERNMENT which would assure full employment must first determine the minimum wage which it proposes to make available to all. The Board, it will be recalled, merely recommended that the Federal government assure jobs “at decent pay.” Such a vague formula is the delight of politicians, but it is the despair of economists, for it avoids the central issue. To provide employment for all who will accept five dollars per day is one thing, but to provide such employment at a minimum wage of ten dollars is something else again.

The question of wage rates lies at the heart of the full employment problem, and those who would plan our economy should display some knowledge of the way in which the price of a given grade of labor affects the demand for it. The

sterile argument over whether or not labor is a "commodity" has tended to obscure the fact that, at any point in time, more labor of a given grade will be demanded at a lower wage than at a higher one. If, either by union action or by law, the wage is fixed at a point where the supply of workers exceeds the demand, unemployment inevitably results. Those who are unwilling to face this unpleasant fact should refrain from practicing the planning art.

The Three Alternative Solutions

IT WILL DO LITTLE GOOD to insist that employers have a moral obligation to provide jobs for all returned service men, or to threaten them with increasing doses of socialism if full employment is not provided. After this war, as before, employers will add to their working force so long as it is profitable to do so, but beyond that they cannot go, even if they would. If we are not to permit wages to fall to a point at which all labor could be profitably employed, we can either put the unemployed on government pay-rolls, or we can subsidize private production until all the workers are absorbed. These are the three alternatives, and there are no others.

A logical case can be made for insisting that no able-bodied person should receive either relief or private charity until he had first sold his services for the best wage he could secure in a free market. This policy, if relentlessly pursued, should result in full employment, and if the minimum wage thus determined appeared too low, it could be supplemented by government payments. The size of such supplemental payments would be limited by our economic resources and our charitable inclinations. Such a program, however, would entail the destruction of labor unions, minimum wage laws, and every monopoly practice and device that obstructs the free market.

In the short run, therefore, such a program is politically impossible, whatever its virtues might ultimately prove to be. The exigencies of the moment seem always to preclude the adoption of the best course; we can only select one that is less stupid than some others. Since neither our institutions nor our mental "sets" will permit wages to fall until all workers can find employment, we must choose between subsidizing private employment or putting the unemployed on public pay-rolls.

With the WPA fiasco behind us, we should consider the subsidy device, not as an aid to weak or sick industries, but as a means to full employment. It is very doubtful if it should be used to maintain a merchant marine, international air lines or a domestic sugar industry whose costs may always exceed those of their foreign competitors. It may very properly be used, however, to make certain that our private enterprise system will offer employment to every able-bodied person who wants to work. But its use should be restricted to those periods when the wage of the lowest grade of labor falls below the determined standard.

A chief merit of the subsidy device is that it can be put into effect promptly. Depressions resemble fires in that they may be easily controlled if prompt measures are taken, but otherwise they must burn themselves out. The creation of administrative agencies for the direct employment of workers requires too much time, and the operation of these agencies is too clumsy to provide us with the quick adjustments that are needed to assure full employment. For instance, a subsidy could be paid for residential construction begun within three months and completed within six or nine months, and such a plan would provide a prompt stimulus to the construction industry and all the industries dependent upon it. If, however, we were to wait until the Federal or local housing authorities were to acquire sites, prepare plans,

call for bids, etc., such public housing might be as ineffective as were certain public expenditures during the depression. Speed is of the essence of any device, speed and the certainty that it will be employed. With this certainty established we may shed once and for all the paralyzing fear that has been disseminated by the exponents of the "mature economy" argument.

The State Enterprise Alternative

THE FRIENDS of the free enterprise system, even though they cannot see a socialist conspirator under every official bed in Washington, must question every proposal to expand the public pay-roll. Socialism, like Inflation, comes in "increments of 3%" and it is more likely to come from a policy of drifting than from conspiratorial or revolutionary action. Those who, like the members of the late Planning Board, would prevent unemployment by a revival of the WPA device, may honestly deny their predilection for a collectivist society, but their plans, if adopted, would nevertheless lead in that direction.

We must recall that no government can ever again permit a prolonged depression to run its course. Mass unemployment is too obviously an avoidable evil. There is in fact no danger of persistent mass unemployment, but if we devise nothing better than an expansion of public works and an augmented WPA, the collectivist sector of our economy will grow at the expense of the private enterprise sector, and we shall have, as one of the fruits of victory, an economic system that will be hard to distinguish from those of the Axis powers.

The limited planning needed to achieve full employment in a free enterprise system is a task for the bold rather than the timid. We need the courage and the confidence, but not the methods, of the leaders of the Soviet Union. While our leaders are trembling for fear of mass unemployment in the

post-war years, Moscow is reputedly insisting that German workers shall be brought into the Soviet Union to assist in the work of reconstruction. Nor can it be claimed that the Soviet Union can provide full employment only because it has been devastated, or because its economy is not yet "matured." The simple truth is that our wants, as theirs, are unlimited, and if we cannot devise a free enterprise system which will afford full employment, the drift towards socialism will be inevitable.

It is a national misfortune that the NRPB, our first governmental planning agency, came to its end "not with a bang, but a whimper." Every American yearns for some assurance from our government that when the war ends we shall not take the old road back to another Great Depression and then combat it with the same fumbling and futile methods that were employed in the thirties. Neither the President nor the Congress have sufficient prestige in economic matters to quell the doubts which paralyze the will and confidence required for the post-war era.

We need a new national planning agency which should include nationally known figures in the field of business, government and economics. Any planning, to be effective, must be the work of the most respected men in the country, men who harbor no political ambitions and who are not subservient either to the President or the Congress. They should formulate and evaluate plans for assuring jobs for all, both by subsidizing private employment and by direct employment in the WPA fashion, or some reasonable combination of these alternatives.

With these alternative plans before them, the American people could discuss the issues involved, clarify their thinking, and perhaps develop such a preponderance of opinion as could not be ignored in Washington. Unfortunately, we have no constitutional machinery for conducting a "solemn refer-

endum” of the kind that obtains in other democracies. There the cabinet may dissolve parliament and “go to the people” by calling a general election which will reflect the popular will. Our elections are held only because a particular time has elapsed, and too often, when the election is over, no one can tell what the mandate of the people is, so far as any particular policy is concerned.

Nevertheless, with alternate economic plans properly prepared, every cracker-box in the land would come to life, and we would have a debate “heard ’round the world.” All would, we trust, assume that in the future it will be politically impossible to tolerate the crowning stupidity of mass unemployment, and we could therefore choose between subsidizing private unemployment or resurrecting the WPA. Because the NRPB could not or would not set the stage for such a debate, its report, hailed by *The New Republic* as a “Charter for America,” will remain pretty largely unread, and its authors pretty largely forgotten.