

THE AMERICAN ECONOMY
ITS FUTURE AND ITS SEGMENTS

by

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INTRODUCTION

Today, Americans are enjoying a standard of living which enables them, except in time of war, to eat their cake and have it too. Poverty is no longer a serious problem, except in isolated pockets. We consume more and still save more than we have been able to do in the past.

Yet, some citizens say that Americans have squandered their heritage; that we are losing our rights as individuals; and that there is an uneasy drift to collectivism. They suggest the following course of action be followed to correct this situation:

1. Refrain from passing more socialistic laws.
2. Repeal of the socialist laws now on our books.
3. Return as many powers as possible to the individual states.

Other people see the United States Capitalistic System fading away and being replaced by a paraproprietal society. They say that it is a mistake to call the American Economy "Capitalistic" since this implies the concentration of capital; the power or influence of capital as when in the hands of a few. But ownership of the country's productive means has been so diffused that these facilities are owned by almost everyone. This means that we have a society in which control over property has been separated from individual ownership although the general

public does have some control over the managers of their properties through powers of consumption and government.

We have also recently heard Mr. Khrushchev repeat that our children or grandchildren will live under communism. He implies that even though our way of life is good, communism is better and that it will become the economic system of the world.

This cannot happen if our system continues to grow and raises the standards of life of the rest of the free world as it continues to raise ours. A capitalistic system of economy is a dynamic system; it must grow to survive.

The purpose of this thesis is to look at our American heritage and the standards we have raised through the various segments of our society--agriculture, business, labor, and government. Since we are a democratic society, the development and aims of each segment has had an effect on our way of life. It is by increased cooperation and coordination between these groups that we can grow the way we want to without fear of losing the future or our heritage.

CHAPTER I

THE AMERICAN STANDARD OF LIVING

The United States of America was founded on the grand scheme and design of human freedom. Its premise was the conviction that society can profit most through emancipation of the individual from all forms of power-- economic, social or political which impose unnatural restraints against his full development.¹

The aim of the national economic systems of the world is the material well-being of its society. The difference between these "isms" is the method of accomplishment of this material surplus. This well-being, however, is not the end but only a means to the end. A country which is well developed and whose people have satisfied their basic needs is free to improve culturely, socially and spiritually. This is possible because the members of the country are able to spend their time in these areas.

The people of America have attained economic success with a market oriented free enterprise system. The main elements of this free enterprise system are (1) the private ownership of property and of the means of production and distribution (2) the acceptance of profit-making in business (3) freedom of choice and entry to the market by employers, workers, and consumers and

¹ Crawford H. Greenewalt, The Uncommon Man (New York: McGraw Hill Book Co., Inc., 1959), p. 1.

(4) insistence on competition.²

Our economic success is so complete that poverty is no longer a serious problem. It does exist but only in isolated spots. Therefore, equality is no longer a matter of major social concern.

Job and income changes have transformed our society. More and more Americans enjoy the "middle-class" life and the little differences have become most important. "Class" has been replaced with "status." The very rich are not looked upon as someone different because what do they have that anyone can not get in time?

Several reasons exist for raising our standard of living to that of an affluent society. These reasons are incorporated in our way of life:

1. The extensive use of money for the exchange of goods and the production of capital goods.
2. The division of labor into specialized segments concentrating on what they can produce at the lowest comparable cost and not attempting to meet their needs by only their own production.
3. The mechanization of the manufacturing processes and the progressively larger proportion of national income coming from manufacturing rather than from agriculture.
4. The great reservoir of natural resources and fertile soil which supplied the raw materials for production and the ability to produce the needed abundance of food and supplies of

²Marshall E. Dimock, Business and Government, 3rd ed. (New York: Henry Holt and Co., 1957), p. 9.

organic materials (trees and grasses).

5. The belief in economic growth of the individual and the strong desire to achieve greater economic well being.

Factors During the Decades of Growth

Debtor to Creditor Nation

Until World War I we were a debtor nation. England and the countries of Europe had lent us the capital we needed to build. By 1880 our trade was large enough to equal imports and exports, but our balance of trade was still upset by the interest on loans.

World War I made us a creditor nation. We supplied England and France with money and equipment to build war materials and provide postwar relief to their people.

Industrial growth and World War II made us the strongest nation in the world in 1945. While most of the industrial capability of the other countries of the world had been destroyed, ours was intact and able to produce in mass quantities.

Since 1945 as the major creditor nation of the world, we have helped these countries rebuild to the point where they successfully compete with us on the common world market.

Use of Natural Resources

America was so vast and had such large stores of natural resources that citizens in the 18th and 19th centuries thought the supply could never be used up. In fact, our forests were a hindrance to the farmer and settler. Land had to be cleared before crops could be planted.

As the country developed industrially and people spread

throughout the countryside, they realized that there was a limit to these resources. This realization caused controls on ranges and forests, development of lesser supplies of ore and a search for substitute material for production.

By 1900 the only large virgin stands of timber were on the Pacific Coast. The forests of the other sections of the country had been denuded without plans for a second crop. Ranges for feeding livestock had been plowed into farms or overstocked until there was danger of a grass shortage. Now the government forest services and the timber industry practice forest and range conservation and restoration. Timber is grown as a crop and the number of livestock on an area is restricted.

Rich, easily removable supplies of ferrous ores made our industrial growth possible. Iron is the chief and most important example of these ores. The rich iron ore of the Mesabi range in Minnesota, together with the cheap water transportation of the great lakes created the smelting areas of the middle west. Steel produced from this ore made possible the railroads and machinery necessary to build and transport the products of the American industrial revolution. Where other countries lacked cheap steel to build with, we had it and used it. As the richer and easiest mined ores ran out, other ores were located in different parts of the country and the steel industry has moved to these areas. Today, because of the size of our steel industry we also import ore from Canada and South America. As a result the industry has also spread to the major sea ports.

Fear of shortages of natural resources, together with a desire for a better substitute at a lower cost, has caused

industry to search for replacements of native materials. This search has been a boom to the economy by the addition of whole new industries.

This search for better products has caused us to replace some fuel products for others. We have developed oil products to the detriment of coal causing growth in one industry and a decline in the other.

The United States has an almost perfect geographical distribution of energy resources if all forms of power are considered. There is not a major area which does not have the ability to capture energy from inorganic sources. This means a great reduction in the cost of transporting materials for industry and also that industry can be spread throughout the entire country.³

Thus a correlation existed and still exists between natural resources and the location and development of industry in this country. There is also a correlation between industry and our well being. Consequently, our standard of living today is in a great degree due to our country's natural wealth. Our future will depend upon the wise use and protection of this wealth.

Security of the Individual

Successful enterprise in the 19th and the early 20th century gave Americans a high standard of living but the masses were dependent upon their families or charity for security upon

³Shepard Clough, The American Way (New York: Thomas Crowell, 1953), p. 21.

retirement or unemployment. Since 1932 "security" has become important. People now are protected from old age and no work.

This security has come from two sources: government legislation or pension plans.

Social security is a valid method of saving out of current purchasing power for future consumption. It has become national in scope and is likely to be extended to further coverage. It is a form of national pension for men and women when they are presumably beyond the age of effective production.⁴ Pension plans perform the same function except they are from private sources. Pension plans have increased because of organized labor.

Unemployment insurance has the same effect of providing purchasing power to people who can not find work to create such purchasing power.

The net change on the economy is to add to the nation's purchasing power a large number of consumers who are not producing. The amount of benefits from social insurance and related programs have grown from \$1,540 millions in 1940 to \$13,143 millions in 1956.⁵ In the hands of the recipients this money creates production and jobs.

Mass Consumption

The standard of living is the great catalyst which converts the potential of demand into actual consumption--the force of purchasing power into actual purchases. And it is only the advancement of the American standard of living which can contribute to

⁴Paul Mazur, The Standards We Raise (New York: Harper and Bros., 1953), p. 47.

⁵U. S. Department of Commerce, Statistical Abstract of the United States 1958, p. 268.

the economy the essential growth it requires, if production is to have continuity, real wages progressive increases, and employment the expansion necessary to absorb a growing population of workers.

Therefore, the basic ingredient in the formula for the success of the American economy is the sociological factor of the standard of living of its forty-one million families, its 170,000,000 men, women and children.⁶

Mass production requires extensive markets for consumption. Without an increase in consumption industry cannot expand. A period of prosperity may come to an end simply because sales have leveled off or have grown at a lower rate than previously. This is the acceleration principle of the effect of consumption on investment and inventories which is used to explain the periodic recessions of the last few years.

Mass consumption also means mass distribution. Without mass distribution the producer gets less sales. This problem required the development of middlemen to handle products for sale or producer sales forces of equal size. As much as people seem to dislike them; wholesalers are a vital part of our economy.

Advertising, styles and credit share equally important positions in keeping the consumption rate up. Advertising to inform the public of the products for sale. Styles to increase the speed of obsolescence of things. The automobile and its related industries would not be as large as they are if Americans kept their cars the 13 years of their useful life instead of buying a new one every three or four years. Credit must be guarded against excesses and abuses, but it is an excellent means of improving material well being.

⁶Paul Mazur, op. cit., p. 83.

Ludwig Erhard, the Vice-Chancellor and Minister for Economic Affairs of the German Federal Republic, expressed the importance of consumption to a country when he said, "Turn the people and the money loose and they will make the country strong."⁷ Growth in America skyrocketed after World War II when consumer goods returned to the department store shelves.

The Measure of Our Economic Growth

Our economic activity is measured by the Gross National Product, the market value of the output of goods and services produced by the economy; or the National Income, the aggregate earnings of labor and property which relates to production. Figure 1 shows the relationship between these two measures. Figure 2 shows the growth of the two for a period of time since 1929.

What we are really measuring is our standard of living and how consumption, government spending and investment affects it. Note in figures 1 and 2 that money in the hands of the consumers comprises most of the GNP. Our standard of living grows because of competition and government spending. However, the greatest part of the GNP is made up of consumption and investment in our competitive enterprise, and it is toward the continued growth of free competitive enterprise in this manner that we should strive for.

The Federal government in the declaration of policy in

⁷Ludwig Erhard, Prosperity Through Competition (New York: Frederick A. Praeger, Inc., 1958), Flyleaf.

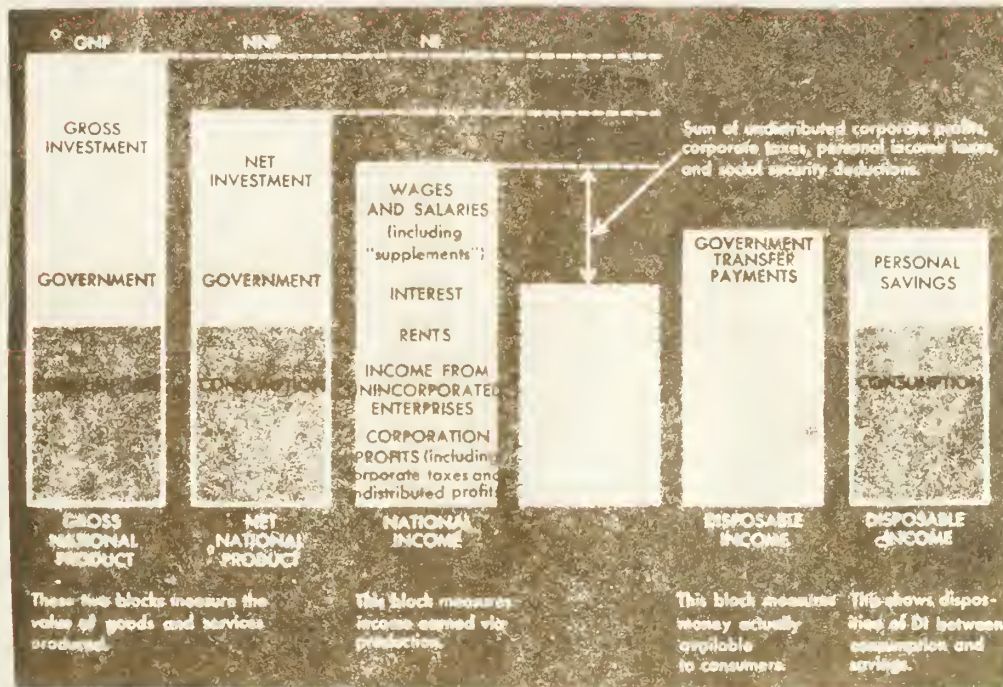


Figure 1.--Relationship between the various means of measuring Economic growth as used by the Department of Commerce.

Source: Paul A. Samuelson, *Economics*, 4th ed. (New York: McGraw-Hill Book Co., Inc., 1958), p. 203.

Items	1929	1933	1939	1945	1953	1954	1955	1956	1957
Equals: National product	104.4	56.0	91.1	213.6	363.2	361.2	391.7	414.7	433.9
Less: Capital consumption (Depreciation)	8.6	7.2	7.8	12.5	26.5	28.9	31.6	34.3	37.1
Equals: Net national product	95.8	48.8	83.3	201.0	336.7	332.2	360.1	380.4	396.8
Less: Indirect business taxes	7.0	7.1	9.4	15.5	30.2	30.1	32.9	35.0	36.9
Business transfer payments	0.6	0.7	0.5	0.5	1.4	1.3	1.3	1.3	1.3
Statistical discrepancy	0.3	0.9	1.2	4.5	2.6	1.7	2.1	1.6	1.7
Less: Subsidies less current surplus of gov. enterprises	-0.1	0.0	0.5	0.8	-0.4	-0.2	0.2	1.1	1.6
Equals: National income	87.8	40.2	72.8	181.2	302.1	299.0	324.1	343.6	358.5
Less: Corporate profits and inventory valuation adjustment	10.1	-2.0	5.7	18.4	36.0	33.1	40.7	40.4	40.6
Contributions for soc. insurance	0.2	0.3	2.1	6.1	8.7	9.7	11.0	12.4	14.4
Excess of wage accruals over disbursements	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Plus: Gov. transfer payments	0.9	1.5	2.5	5.6	12.9	15.0	16.1	17.2	19.9
Net interest paid by govern- ment	1.0	1.2	1.2	3.7	5.0	5.2	5.2	5.7	6.0
Dividends	5.8	2.1	3.8	4.7	9.3	9.9	11.0	11.9	12.3
Business transfer payments	0.6	0.7	0.5	0.5	1.4	1.3	1.3	1.3	1.3
Equals: Personal income	85.8	47.2	72.9	171.2	286.0	287.4	305.9	326.9	342.9
Less: Personal taxes	2.6	1.5	2.4	20.9	35.8	33.0	35.8	39.7	43.0
(Federal)	1.3	0.5	1.2	19.4	32.4	29.2	31.5	35.1	37.8
(State and local)	1.4	1.0	1.2	1.5	3.4	3.8	4.2	4.6	5.2
Equals: Disposable personal income	83.1	45.7	70.4	150.4	250.2	254.5	270.2	287.2	300.0
Less: Consumption expendi- tures	79.0	46.4	67.6	121.7	230.5	236.6	254.4	267.2	280.4
Equals: Personal saving	4.2	-0.6	2.9	28.7	19.7	17.9	15.8	20.0	19.6

Figure 2.--Gross and net national product, national income, personal income, and disposable income (in billions of dollars). Read this together with Fig. 1 to understand the official data most easily.

Source: Paul A. Samuelson, Economics, 4th ed. (New York: McGraw-Hill Book Co., Inc., 1958), p. 206.

the "Employment Act of 1946" stated just this purpose in the following words:

The Congress declares that it is the continuing policy and responsibility of the federal government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and state and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.⁸

Maximum employment, production and purchasing power are equally important to industry, agriculture, labor, and state and local governments as they are to the Federal government. Therefore, this objective as stated in the Employment Act of 1946 is an objective of all segments of our society.

This common objective requires a knowledge of the relationships and possible means of cooperation between each segment and our way of life. We can look into the past and see the trends to today, but these are not necessarily the ways to the future. What we did ten or fifty years ago may not be usable today, because of the ever changing position of development of our people, socially, spiritually, culturally and economically.

⁸U. S. Congress, Joint Economic Committee, Employment Act of 1946, as Amended, and related Laws, 86th Congress, 1st Session, 1959, p. 1.

CHAPTER II

THE FARMER AND OUR ECONOMIC PROGRESS

Today rural America is being subjected to terrific forces which are altering its very form and essence. Not only are farming methods and practices changing, but alterations are taking place in our entire rural society--physically, socially, educationally, politically, organizationally, morally and even spiritually. Literally nothing is being left untouched. Further amplifying this process is the fact that agriculture is a part of a national economy which also is undergoing alternation at a rapid rate.¹

In economically developed countries a larger total of the population is in industry instead of on farms.

It is important to remember, however, that in the beginning agriculture was crucial in the United States. Most of the settlers took land and farmed to make their living. The products of these farms were exported for sale and paid back part of the debt we incurred in the early years as a debtor nation.

A ready market for American cotton, lumber and naval stores existed in England and Europe. England had started her industrial revolution and had to import the raw materials to support it.

In addition the large market for products, growth of

¹ John H. Davis, "From Agriculture to Agribusiness," Harvard Business Review, January-February 1956, p. 107.

agriculture in early America can be attributed to the distribution of land. Up to 1900 land was disposed of in fairly large tracts at reasonable prices or at no cost to the individual. Some of this land was bought and sold by speculators. But most of it, including some of the richest, most fertile land in the world, was distributed by the federal government under the terms of various congressional acts.

The Homestead Act, for example, gave 160 acres of land to any head of a family who resided on and developed the land or who paid the prevailing price for the land (generally \$1.25 an acre). Land that remained undistributed was believed to be unfit for cultivation.

Sales and resales of this land by these owners has created the farm system that we know today. The average farm in 1954 was 242 acres.² It is this average size and larger farm which is important in the production of today's agricultural products.

Commercialization of Agriculture and Area Specialization

Land holdings larger than necessary to support a family enabled farmers to be like industry and enter the capitalistic system. Crops were raised for sale and not just for home use. This did not occur, however, until transportation facilities, farm machinery and a money market were well developed.

As the farmer changed from a self sufficient person to one completely dependent upon the market, changes also took place in the handling of foodstuffs. The middleman and food processor assumed great importance, and the handling of food

²U. S. Department of Commerce, Statistical Abstract of the United States 1958, p. 622.

stuffs became a large part of its final selling price. Thus, an interdependence has developed between the farm community and a large segment of business. Farmers buy items for production from business, combine these with their labor and management and sell the product back to business. Firms then handle and distribute these products to the consumer. Figure 3 shows the approximate present size of these operations. Farm purchases are about \$16 billion per year; farm products are about \$30 billion. \$90 billion comprises the consumer total after business firms process, package and distribute what they buy from the farmer. This aggregate of all agricultural purchasing, production, distributing operations amounts to almost forty percent of the GNP.

As the commercialization of farming progressed, area specialization in agriculture developed. In its development the chief locational factors were soil and climate, but as in industry, proximity to market, availability of labor, and adequate processing facilities also played a part. Thus, we have the citrus fruit areas of California and Florida, the wheat and corn belts of the plain states, and the dairy and milk products of the midwestern states.

Technological Process in Farming

Large, fertile farm units and the desire to commercialize created the need for farm machinery. The United States was the leader in this field. Eli Whitney's cotton gin in 1825, Cyrus McCormick's reaper in 1851, and John Deere's steel plow in 1857 allowed mass cultivation of the land. The Civil War

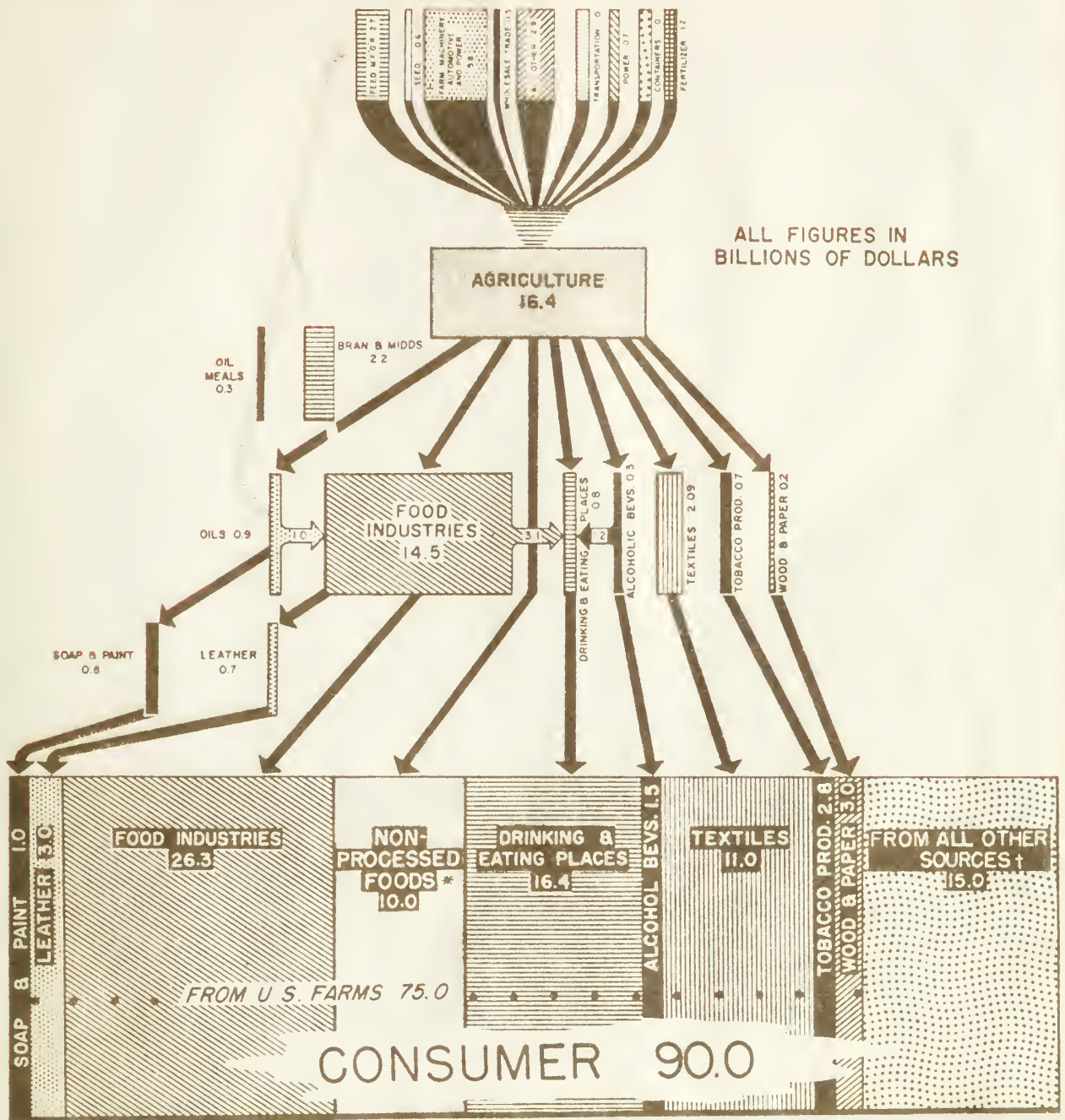


Figure 3.—Graphic picture showing the interdependence of agriculture and business.

Source: John H. Davis, "From Agriculture to Agribusiness," Harvard Business Review, January-February 1956, p. 108.

forced extensive use of these machines as labor saving devices.

These early machines were horse drawn so the farm tractor caused a revolution itself. It freed acreage which had been required to feed horses to grow more crops for humans. Tractor and tractor machinery also required larger and more business like farms to allow for the amortization of equipment. To compete successfully, the farmer has had to become a businessman.

Other technological advances include better producing hybrid strains of plants, better land utilization, better soil conservation practices through the use of fertilizers, irrigation and erosion prevention.

Livestock have been improved through selective breeding and disease control. Now the feeding of livestock is scientific.

All of this progress has been good, but it has created an ability to produce products in quantities which the market can not absorb. The program of research has been geared to specific problems in agriculture and not to agriculture as a whole.

Labor in Agriculture

The traditional farm unit has always been, and still is, the family farm. The modern farmer has to be a businessman, veterinary (of sorts), agronomist, entomologist, mechanic and financier. He is really the jack of all trades that the American man likes to boast that he is. But after all of these things, he is a laborer.

The farm population as a percent of the total population has dropped from 30 percent in 1920 to 12 percent in 1957.⁴

⁴U. S. Dept. of Commerce, op. cit., p. 611.

The trend is still an exodus from the farm. In the last ten years, 5,000,000 people have left.

There are two trends concerning farm labor that are significant. Since 1950 as the number of farms decreased the number of part owners have increased and the number of tenants have decreased. Only the most skillful and efficient farmers are still farming full time. The others are transferring into the industrial labor segment of the society, either part-time or full time.

Seasonal workers are still required in many areas. These people are generally paid very low wages and migrate from job to job. They constitute a major problem in some states because of the social and welfare problems they present.

Agricultural Finance

Growing commercialism in agriculture after 1850 increased dependence upon the market for success. Farmers could not wait for favorable prices in the market as industry could. Their crops could not be stored indefinitely. Also it was harder to control crop growth once it started. Nature could not be turned on and off with an electrical switch as a production line could.

During war periods farmers were given incentives to produce more to meet increased demands for food. The farmers responded by increasing their debt and putting land into production which should have been left idle. In other words, to meet a current need, the farmer went into future debt. After the wars and during periods of depression the farmer was caught in a

price squeeze. He had spent his money to produce a crop, but the market would not meet his costs. As a result farms failed, foreclosures were common and farmers became discouraged.

The Grange and other action groups were formed to find remedies for depressed conditions in the 1870's. Greenbacks and several federal laws concerning railroad rates, tariffs and even the Interstate Commerce Commission are the results of these action groups. Cooperative marketing was tried after World War I.

In 1932 the situation became so bad that the farmer finally got government intervention for price supports.

Government Intervention in Agriculture

The major long term goals of Federal agriculture policy may be summarized as follows:

1. Adequate food production.
2. Maintenance of economic stability for farmers.
3. Conservation of agricultural resources.
4. Elimination of rural poverty.⁵

Before 1932 government help to the farmer to improve his lot was by aid in science, disease fighting, soil conservation, and credit during World War I.

In 1932 the AAA (Agricultural Adjustment Administration) was formed to bring production into line with demand. It placed

⁵ Robert K. Carr, et al., American Democracy in Theory and Practice--National, State and Local Government, Revised Ed. (New York: Rinehart, 1956), p. 749.

a tax on food processors to raise a fund to pay farmers to reduce production. Crops and animals were destroyed. Prices did climb, but the AAA was declared unconstitutional in 1936 because the Supreme Court said the Federal Government was doing a states job in controlling production.

Other parity price programs were put into effect, and steps were taken to diminish mortgage foreclosures and to reduce poverty of those on submarginal lands.

World War II saw farm price increases and the farmers situation improve. There was, however, fear that what happened after World War I would repeat itself. This has not happened because of food needs throughout the world and continued price support programs.

It looks like state intervention is here to stay. The current cost of these programs is \$132 per year per family.⁶

A Cure

The long term goals of Federal agriculture policy are valid goals. We have seen that these goals affect almost half of our GNP and are not limited just to the plight of the farmer. How then can we meet these goals without government support?

The real answer is progress--growth in population, improvement in our own standard of living and increased consumption abroad.

We cannot eliminate government programs at once. The large holdings of stocks by government corporations, and the

⁶McLellan Smith, "The Billions in Subsidies that Unbalance our Budget," The Magazine of Wall Street, 1959, p. 432.

already extended capacity to produce in excess of current needs prevent this.

We can, however, modify programs to transfer land into the production of timber or grass. This way we could produce things to further improve the standard of living. We could also place land into soil-building programs to create a reserve for the future.

Business connected with agriculture can help by promoting new markets and processes for consumption. The American diet has changed in the last fifty years largely because of new ways of handling food products. See figure 4.

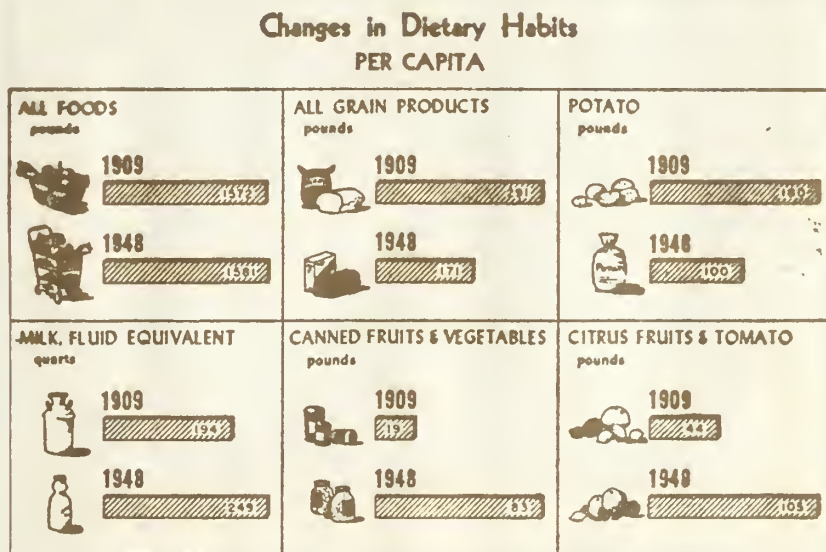


Figure 4

Source: Robert K. Carr, et al., American Democracy in Theory and Practice--the National Government (New York: Rinehart and Co., Inc., 1953), p. 737.

Business can also help by developing new ideas on farm supply and the processing and marketing of finished products. There has been teamwork between grower-groups and food-distributors in promoting consumption of foods in major supply. Only by increased teamwork between agriculture and the businesses connected with it, can government subsidy programs be eliminated.

CHAPTER III

THE AMERICAN BUSINESS SYSTEM

Of the primary business belief that the American way rested on the chance for any able individual to gain wealth, Ralph H. Gabriel writes: "This faith and philosophy became the most persuasive siren in American life. It filled the highways with farm boys trekking to the city. It drained the towns and countryside of Europe. It persuaded the educated young man that the greatest rewards in life were to be found in the business world. It taught the ambitious that power lies in wealth rather than in political office. It penetrated the workshop and paralyzed the effort of the labor leader undertaking a crusade for justice to the working man."¹

Since this country has never had the class system which existed in Europe, the American Businessman has always had high social prestige. His only rival was the politician, who was generally interested in business himself.

The small businessman is a leader in his community, a man who expresses the "common sense" opinions of the community instead of some landed gentry. He is active in town affairs and civil improvement. He is also the symbol of American Capitalism.

Business habits and values are so much a part of our way of life that they are taken for granted. They include and place emphasis on saving, investment and efficient work.

¹Thomas C. Cochran, The American Business System (Cambridge, Mass.: Harvard University Press, 1957), p. 5.

Opponents of business had been the groups who thought themselves both exploited and despised by businessmen. While people complained about business they were not discontent with the system. They wanted only to control elements which threatened competitive enterprise.

Business in the Economy

Given new lands and opportunities, American Society fused these elements into a new faith, into a new vision of the promise of American life. Oriented toward building an ever-expanding future spelled out in terms of increasing material welfare, confident of the inevitable progress of man therefrom, glorifying economic achievement, mobility, competition, change, boldness, bigness, it was a creed designed to fortify creative and aggressive entrepreneurship. It was, moreover, a creed that at the moment of unusual clarity and simplicity was crystallized and codified in the basic symbols and laws of the Republic.²

Within this framework, American business flourished and grew.

Early businessmen (prior to 1860) operated from a monopoly or quasi-monopoly position because they lived in small communities isolated from competition by poor transportation facilities. These men did not use the single price system but bartered or haggled their highly marked-up goods. However, they did not charge all that the traffic could bear, because of their community status. They were on a first name basis with their customers and this tended to limit their self-interest.

Even the bigger merchants in the seaport towns and early

² Charles H. Hession, The Dynamics of the American Economy (New York: Alfred A. Knopf, 1956), p. 66.

industrialists, while experiencing more competition, tended to show high standards of responsibility to clients and creditors. They did not, however, show much conservation to their competitors or the government.

With the advent of corporations and absentee ownership, the social control of the community was lost. This control has been to a large extent replaced by the competitive price system. Yet the rising of corporations was inevitable in our business system. The earlier traditional forms of organization (single ownership and partnership) were limited in ability to increase production. Frequently neither of these arrangements provided amounts of capital adequate for taking full advantage of existing techniques and resources; neither gave the small investor adequate relief from problems of management; and neither was perpetual.³ These problems were solved by the corporative form of business organization.

Today corporations stand out as the most important business firms. In 1949 it was estimated that corporations not only directed about half of the production of the nation, but also accounted for 75 percent of all wages and salaries paid by private industry and employed about two-thirds of all employees in private industry.⁴ In fact, the wealth of many of our billion dollar corporations exceed the wealth of many states.

With the growth in size of business and with the increase

³ Shepard B. Clough, The American Way (New York: Thomas Y. Crowell Co., 1953), p. 51.

⁴ Robert K. Carr et al, op. cit., p. 718.

in technical knowledge necessary to produce and distribute goods, scientific management systems and professional managers replaced owners in control and direction of business concerns. Today, ownership of stock gives the stockholder little or no power to control the private property owned by a corporation. Corporate management tends to be self-perpetuating and stockholders exercise little or no influence over them.

Problems of the Industrial Enterprise

The problems of our present industrial system are complex, yet we read about them or are affected by them daily. The economic conflicts include the management-labor battle over wages; the workers resistance to increased production in any way; and opposition to the principle of profits. The management function and the social responsibility of a plant community constitute other problems. A final problem is the necessary growth of the system to meet future prosperity and the need of competition to support this growth.

Economic Conflicts

The Wage Issue

To management the wage is a cost--a part of the unit cost of production. For the enterprise to survive, or be profitable, wage costs must move with the selling price of the goods produced. Labor costs must also move with the ups and downs of production. The enterprise must regard "labor" as a commodity which is bought according to the current level of production and priced to the current price level.⁵

⁵Peter Drucker, The New Society (New York: Harper and Bros., 1950), p. 77.

To the worker the wage is his means of subsistence-- his standard of living. He needs a predictable income to maintain himself and his family. He can not accept the idea that he is a commodity. To consider labor as a commodity subject to impersonal economic forces goes against the workers' economic, social and political needs.

Both the position of the enterprise and the worker are right. The solution of this problem must be one which satisfies both parties and provides a flexible wage cost for industry and increasing real wages as income for the worker.

Resistance to Increased Production

The worker fears increased production will cost him his job. This resistance to speed up is the reason for union "featherbedding" activities and for the informal quotas established by workers in plants. The worker's position is the same as that stated in the wage issue. He needs a predictable income to support his family. He has no way, as an individual, of protecting himself against obsolescence because of technological changes. A man can improve in his job, but what if he is replaced by a machine? His job is gone.

Most American industries were built piecemeal. Plants were expanded as the increased production was needed. Until recently there were no new plants designed and built from the ground up. Many of these old plants are now worn out and should be replaced. Since we are in the age of automation, the new plants should be built with processes which will enable the building companies to compete with everyone, including foreign companies.

Business management desires automation and claims it is necessary because the high wages of workers makes competition impossible. Yet automation itself is not the answer. Markets for consumption have been established; they must be maintained and new ones created. Production without consumption means depression not prosperity. Also automation does not replace all workers, but it does require a new type of worker.

The really serious social problem of automation is not the hiring or firing of workers but the need to upgrade whole groups of the population in a very short time. Automation requires trained and educated people in unprecedented numbers. One large manufacturing company (now employing 150,000 people) figures that it will need 7000 college graduates a year, once it is automated, just to keep going; today it hires 300 annually.⁶

Today, business management using incentive pay plans is getting increased production in areas where this production is not reducing the number of jobs.

The problem of replacing men by automatic machines and not causing technological unemployment must be worked out by business, labor and government. There can and will not be a universal solution, but any solution must remove the worker's fear of this problem yet not penalize business. A solution requires careful planning of changes and close cooperation with the workers. Management-labor agreements and committees exist to provide and seek ways to solve this problem. Examples of these are the management-labor committees established after the recent steel strike in January 1960, and the education fund

⁶Peter Drucker, America's Next Twenty Years (New York: Harper and Bros., 1957), p. 30.

provided by the meat packers to train displaced workers in the meat packing industry.

The Need for Profits

Profits are the central economic issue an industrial society has to resolve if it wants to survive. The American public, not just the worker, believes that profits are necessary in business but they must be kept low--around ten percent. Profits are not seen as something necessary for the economy to survive or that they have any benefit for the members of society. People feel exploited by profits. Yet, they provide the capital for internal expansion which creates jobs and products to raise our standard of living. Profits also provide a return to the people who risk their savings in a business enterprise. And with the growth of pension and other saving funds the very people who disclaim the need for adequate profits are the people who will benefit from them in the future.

An industrial system can function and survive only on a profit margin adequate to the demands of the future. The adequacy, if not the existence, of this profit margin is seriously threatened by the workers rejection of profitability. An economy running at less than adequate profitability, that is, at a loss, must be subsidized by the state and ultimately be nationalized to keep alive.⁷

The Management Function

Management decisions effect all of us directly or indirectly. The ability of management to make the right decisions determines its success in discharging its social, governmental,

⁷ Peter Drucker, The New Society, op. cit., p. 97.

and economic responsibilities. Because of the bigness of business enterprise and the divorce of ownership and control, management is responsible for the survival and prosperity of the enterprise.

Concretely, this entails three major responsibilities which together constitute the top-management function:

1. Responsibility for the survival of the enterprise in the economy, that is, for its profitability, its market, and its product.
2. Responsibility for the organization of the enterprise's human resources and for their efficient use.
3. Responsibility for an adequate and orderly succession to top management itself.⁸

These functions require the making of decisions for the future concerning controls, developments in economic and social policies, and business objectives. These are responsibilities which must be discharged by top-management and which can not be delegated.

A new approach in management, which includes elements of both scientific management and human relations, is what may be called administration by objectives, the effect of which is to develop the potential of the individual and to make him a willing partner in the undertaking.

If the objectives and policies of the enterprise can be made clear to the individual, he may find that his societal and personal ambitions, which together add up to his personal integrity, coincide with the

⁸ Ibid., p. 204.

institutional goals of his employment. At this point higher management assigns him a good deal of latitude regarding method, the assumption being that if the goal of the program is jointly agreed on, the working out of method should be left as far as possible to the recipient of delegated authority. This authority should be increased as the individual's ability develops, and at the same time he should be cooperatively engaged in the further definition of larger, common objectives, so that eventually he will be qualified for responsibilities at a higher level.

If this plan is carried out well, then officials and employees throughout the undertaking will develop loyalty and energy because to a considerable extent they are their own bosses. Top management will be free to coordinate, to plan ahead, to look for evidences of decay, and to stimulate enterprise, none of which is very feasible when administrators are burdened with the details of direction and control.⁹

This is centralized policies and decentralized execution with participation by the individual and direction by his senior.

The Plant Community

The American industrial revolution replaced the individual artisan, whose work and status in the community was easily identified, with a production worker whose product is not identifiable at all. This replacement of individual social status has resulted in the plant community which exists in every enterprise. It is composed of workers, and its needs are those of its members as human beings. Management has to recognize a need of self government within this community to satisfy the social need of the workers. However, this self government is only justified to the extent it strengthens management and makes it more capable of managing successfully. It is not a replacement for the management function, but it is a means to a common ground

⁹ Marshall E. Dimock, Administrative Vitality (New York: Harper and Bros., 1959), p. 189.

between labor and management.

There are six major areas or functions which the plant community has a definite interest in coordinating with management. They are (1) safety and health matters (2) security benefits (3) personnel-management (4) technological change (5) job standards and (6) greater productivity.

There is another area which is completely social where management's interest is incidental to economic performance. It comprises the areas of community life which separate work from job in time and space: transportation to and from work, parking, the cafeteria, recreation activities and educational activities. In these areas the community should be entirely on its own. This gives the community government a sphere of authority that is by no means unimportant to its members.

The self government of the plant community--subordinate to, and limited by, the enterprise's need for economic performance, but autonomous within its limits--is the answer to the enterprise's demand for a "managerial attitude" of its members, and for acceptance on their part of the economic rationale of the enterprise. It satisfies the members' needs for citizenship, recognition and opportunities; it alone can solve the problem of the split allegiance between enterprise and union, as well as the problems of union function, union cohesion and union leadership.

At the same time it will not undermine management's authority and power. On the contrary, it is likely to increase them and to bring about the acceptance of the governmental authority of the enterprise as a legitimate authority.¹⁰

Management, by recognizing the social needs of the worker, sees labor not as just a current cost of production, but also as a capital resource where the workers wage and well being

¹⁰Peter Drucker, The New Society, op. cit., p. 288.

is considered as fully as a future cost of staying in business as it is a current cost. This way labor is not just a commodity, and a proletariat will not develop in America.

Growth and Competition

The most successful means for the achievement and retention of prosperity is competition. Only by competition can an economy expand to serve all people especially in their capacity as consumers, and dissolve all advantages that do not result directly from higher performance. Free competition thus leads to progress and profits for the whole social order.¹¹

Our economy must grow in order to provide the necessary jobs and products to maintain and increase our standard of living. Growth which is too slow or no growth can cause unemployment, discontentment and depression.

Growth, however, can not be limited to just the industries in existence whether large or small.

Big business is required to provide the means of supplying the mass market, sustaining war production and research, and providing successful management.

Small business, properly supported, is necessary for new growth and ventures. A man with an idea must be able to develop and introduce it into the economy. This small business is vital to our economy because it is what gives the economy transfusions for a higher standard of living.

¹¹ Ludwig Erhard, Prosperity through Competition (New York: Frederick A. Praeger, Inc., 1958), Flyleaf.

CHAPTER IV

THE LABOR FORCE AND LABOR MOVEMENT

The term labor here involves not only workers, their training, their skills, their willingness to work, and their sharing in the benefits of production, but also the relationship of their numbers to natural resources and productive equipment. In general, experience has shown that where workers are few in relation to resources, economic progress has been especially rapid, for under these conditions it is easier to create surpluses and hence to have greater capital formation; with more capital formation productive equipment per worker is more likely to be extensive; and great productive equipment per worker is conducive to specialization in production and to a division of labor.¹

The rapid growth and spread of the American population, during the first one hundred years of our history, provided our country with both workers and markets to make the business system expand.

This growth in population was caused by a high rate of natural increase and immigration. Even during periods when the birth rate was low, it was offset by a decline in the death rate. The number of immigrants became so high that quotas were established to prevent competition with the labor force already here.

The fear of over population has always existed, yet it has never been a fact. Nor will it become one in the next twenty

¹Shepard Clough, The American Way (New York: Thomas Y. Crowell Co., 1958), p. 128.

years. Actually the composition of the labor force in the next twenty years will be just the opposite. There will be a shortage of workers. To be effective for progress the labor force must include a large proportion in the age groups that can work.

Here, in summary, is the basic population structure within which the American economy will function during the next twenty years:

There will be a population increase of one-fifth in the next ten years.

But total population of working age will increase only by one-tenth.

Population actually available for work will increase only by 6 percent.

And total hours worked by the whole economy in the course of one year may not increase at all.

And in the next twenty years, total population will increase by at least two-fifths.

Population of working age, however, will increase by less than one-third.

Labor force will go up by one-fifth, and total hours worked by 10 percent.

And even more intensive employment, on a larger scale, of older people who are willing and able to work, however desirable in itself, would not materially affect these conclusions.

These statements define a trend exactly opposite to that which dominated the twenties and thirties. Then, partly as a result of the drop in the birth rate and partly because of the cutting off of immigration, the population of working age tended to grow faster than the total population. We face the exact opposite, in

other words, of the basic assumptions that underlay Keynesian economics; and the basic problem of economic policy in the next two decades ahead should therefore not be unemployment but inflation.²

Unionism Then and Now

Organizing Labor

Unions came into being as the result of the concentration of human beings, as workers into groups, to improve their lot while providing the labor for mass production. There were organizations of trades before the Civil War but unionism did not become important until the late 19th century. See figure 5.

In 1886, Samuel Gompers was elected the first President of the American Federation of Labor. The AFL set the policy of organizing by crafts instead of industries and concentrated upon improvement of working conditions within the Capitalist system.

The efforts of Labor were not accomplished without bloodshed and violence by both sides. Workers and management responded to strikes with their musclemen.

The policies of the AFL helped, however, to slowly change the thinking of unionism as just something rowdy and gave it a degree of respectability.

The Department of Labor was established in the Federal Government in 1913. The Clayton Act in 1914 restricted Federal Court injunctions against Labor, thus eliminating one of the strongest weapons used to destroy unionism.

The right of collective bargaining was established in the

²Peter Drucker, America's Next Twenty Years (New York: Harper and Bros., 1957), p. 8.

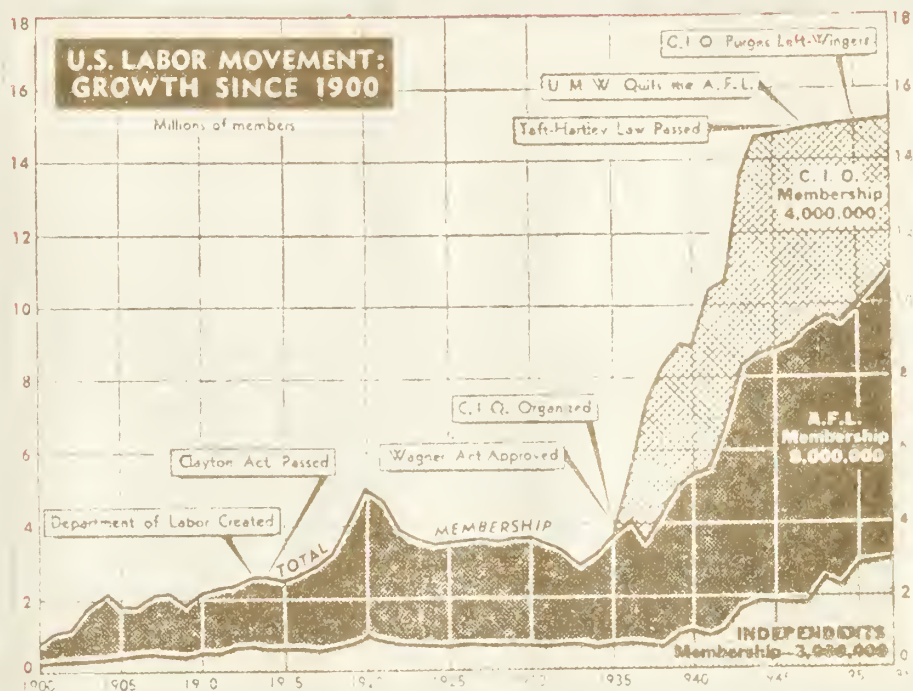


Figure 5

Source: Robert K. Carr, et al, American Democracy in Theory and Practice--National State and Local Government Revised Ed. (New York: Rinehart and Co., Inc., 1956), p. 780.

Railroad Labor Act of 1926 and strengthened by the Wagner Act of 1935.

Labor Since 1930

The New Deal of President Roosevelt with its favorable legislation and encouragement of trade unionism greatly strengthened Labor's position and really provided the broad base which unions operate from today.

Since World War II there have been two principal bills passed restricting labor activities--the Taft-Hartley Act and the Landrum-Griffin Bill. The purpose of these bills is to prevent Labor abuses and misuses in the use of strikes and power of Labor leaders.

Aims of Labor

The aims and aspirations of Labor are clearly spelled out in the constitution of the AFL-CIO. They are:

1. To improve wages, hours and working conditions for workers.
2. To bring the benefits of free collective bargaining to all workers.
3. To achieve equality of opportunity for all workers, regardless of race, creed, color or national origin.
4. To support legislation which will aid workers and to oppose harmful legislation.
5. To protect and strengthen democratic institutions and to preserve America's democratic traditions.
6. To aid in promoting the cause of peace and freedom in the world.

7. To protect the labor movement against corruption and racketeers.

8. To safeguard the labor movement from Communists, Fascists or other totalitarians.

9. To encourage workers to register and vote and to exercise fully their responsibilities as citizens.

10. To encourage the sale of union-made goods through the use of the union label.³

Since unions operate through locals, these aims are not always carried out. People in unions have the same prejudices and problems as everyone else. Examples of these are (1) the discrimination of colored craftsmen in Washington, D. C. (2) the hoodlum elements in control of the teamsters and (3) the radicals who got into unions in the thirties and forties. However, these problems are recognized by responsible union leaders, the Federal Government, management and the public, and they are being solved as fast as possible in a democratic society.

Unions are here to stay. While there are justifiable claims that they pursue policies which restrict production, they also contribute to economic progress. By demanding higher wages they create markets and stimulate capital investment for expansion. By demanding shorter hours they give management incentives to organize for efficient production. It is also important to remember that the labor movement in America has never been a political movement attempting to overthrow the existing system. It has concentrated upon the improved standard of living of the

³AFL-CIO, This is the AFL-CIO (Publication No. 20 issued by AFL-CIO, 1959), p. 3.

worker within the Capitalistic system.

A serious drawback of Labor is that in accomplishing their aims they do not look far enough into the future but limit themselves to the period of the next contract.

Unions Need to Mature and be Responsible

Since the union is powerful and accepted by society, it must accept responsibility for the success of the enterprise, for its profitability and productivity, and for the stability, profitability and productivity of the economy.⁴

The Rational Wage Policy

There are four ways of determining wage rates: (1) by the employer (2) by the employee of his union (3) by the government and (4) by collective bargaining. In America it is done by collective bargaining.

But the union must accept the principle that the wage rate must be flexible, that an adequate rate of profit is as important, or more so, than wage demands.

This is a bitter pill to take, but expansion by internal means is important to our progress. This does not mean lower wages but gearing the increase in wages to the increase in economic growth. Nor does it mean submitting to the demands of management, it means determining the point of growth at the bargaining table. Many contracts between labor and management have geared wages to the cost of living index. This provides management with flexibility during a recession and gives labor a

⁴Peter Drucker, The New Society (New York: Harper and Bros., 1950), p. 114.

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raise during a boom. Also wage demands have not been as high in cases when there has been labor-management cooperation and understanding in the internal expansion of the company.

The Right to Strike

A strike is the union's weapon to get its demands. It is one facet of collective bargaining. The strike has been powerful in the past, but it is in danger of being lost. To be effective as a weapon unions must use the strike at times. Strikes have tended, however, to be industry-wide rather than against one company or one plant. Because of the Cold War the strike has not only been harmful to the economy but endangered the National Security. Therefore, there is a limit to the use of the strike, and it is this limit which unions must watch out for in the future. If union leaders extend the strike beyond the period acceptable by society; government intervention will occur.

Also union members will lose faith in their leaders if they are told to continue striking for demands which are excessive. This occurred in Hawaii in 1958, when the laborers were told in March that if they continued a strike; management would be forced to give a twenty-five cent per hour increase. Management had offered fifteen cents. In May the strike was settled by mediation for sixteen cents per hour. The workers were not happy with their leaders for that one cent.

The right to strike is recognized as a union weapon, but it is not a weapon which can be used without discretion.

Restrictive Practices

A need for security and status resulted in practices which

resist progress and change. But a higher standard of living requires progress. The high wages paid to our labor force also necessitates technological change.

The elimination of restrictive practices requires changes in the system of technical education and apprenticeship by which men enter craft unions. It also requires forward thinking in matters of organization, production and efficiency. But basically it requires labor-management consultation to develop the smoothest means of shifting the labor force. Responsible union leadership can not resist change but must work with management to develop it.

Union Size

Big unions have the same problems as big business. Growth in size adds new layers of organization causing the influence and freedom of the individual to be lost. Without good management the protection of the individual can only be guaranteed by the state. The solution of big unions without government protection is administration by objectives. Union organization with centralized policies and decentralized control assuring the union member of his voice in the organization.

CHAPTER V

GOVERNMENT

Although government is essentially like other institutions, it differs in at least two respects: first, the organized political state is said to be sovereign in that it exercises a superior authority according to which all individuals and groups within its borders must obey its laws; and second, today government is the only institution in which membership is not voluntary, but imposed at birth on all within its domain; nor may the individual withdraw from the state without leaving the territory thereof.¹

Federal Government today is big because of the bigness of the other segments of our society, the effects of social change, and the mature status of our country in this world.

The role of Federal Government within our competitive system is well defined in our constitution. Specific actions to insure our freedoms and general welfare have been and are the result of pressures from the various groups of our society. The effect of each group has been felt at one time or another. This action is normal and should be expected within a democratic government and a society which is growing rapidly.

Four Economic Functions

Our Government performs four functions which have a

¹ Marshall E. Dimock, Business and Government (New York: Henry Holt and Co., 1957), p. 4.

cause and effect relationship upon our economy. They are:

1. Government provides many forms of assistance such as research, the consular services, subsidies to shipping and agriculture, and the like.

2. Government regulates a large part of the economy through commissions and agencies.

3. Government operates a certain number of economic services itself.

4. Finally, government has undertaken a limited planning and stabilization function relative to the economy as a whole.²

In performing these four functions, government can be the catalyst of our economy or the means for destroying it. Private competitive enterprise must grow--or government projects will grow. Private enterprise can only grow because of expanding domestic markets or expanding world trade. The policies and actions declared in the "Employment Act of 1946" requires that agents of the Government understand the positions and needs of each segment of society. An emphasis too long and too strong in any one direction can do much harm.

Government largely creates the climate for private enterprise as the policy maker, stabilizer, and tone setter for the economy. It must establish the conditions that are conducive to enterprise: an expectation that innovation will occur; self-confident and resourceful people; incentives to experimentation and discovery; the encouragement of freedom, competition, and new ideas; minimal vested interests; congenial work surroundings; and adequate research facilities. All of these conditions are

²Ibid., p. 12.

more likely to flourish under Capitalism than under Socialism, under competition than under monopoly, and in a society where individualism is appreciated than in one where it is disregarded.³

Regardless of the party in power the Government has to act to establish these conditions.

The Future of Government

All Government responsibility and expenditures will continue to increase. There will be a continued high demand for schools, highways, hospitals and other public health needs, parks, water projects and other programs. Also the cost of national security will remain high even in face of gradual disarmament and changing military policies.

It is impossible and undesirable to repeal the so-called socialistic laws on our books. To do so would place millions of people upon public charity and in welfare homes requiring more government spending. We have in this country more than doubled the life expectancy of the individual and at the same time through mass production dissolved the family unit. Sons do not follow their father's footsteps or even stay in the same locality. More programs for security will occur in the future not less. Mass production, technology and medical research have created a standard of living and labor surplus that requires security in old age. Any program proposed must assure this security and the best programs so far have been either government controlled or

³ Marshall E. Dimock, Administrative Vitality (New York: Harper and Bros., 1959), p. 266.

coordinated.

Problems of control of business, labor and agriculture are too big for states alone. All of these segments are larger than any state and their problems do not end at any state border. The effects of action by one state is felt in other states. The coordinating function of our growing economy has to be taken over by the only institution able to do the job. See figure 6.

As a mature nation we have to participate more fully in the development of other nations. Not only to preserve our way of life, but to insure a continuing supply of raw materials for production. Figure 7 shows why we are becoming a have-not nation in raw materials. Through governmental and private action we have to raise the standard of living of other countries to continue our own growth.

Finally, Government fiscal and monetary policies must continue to stabilize the business cycle. As the economy grows it will take greater changes in spending to do this effectively.

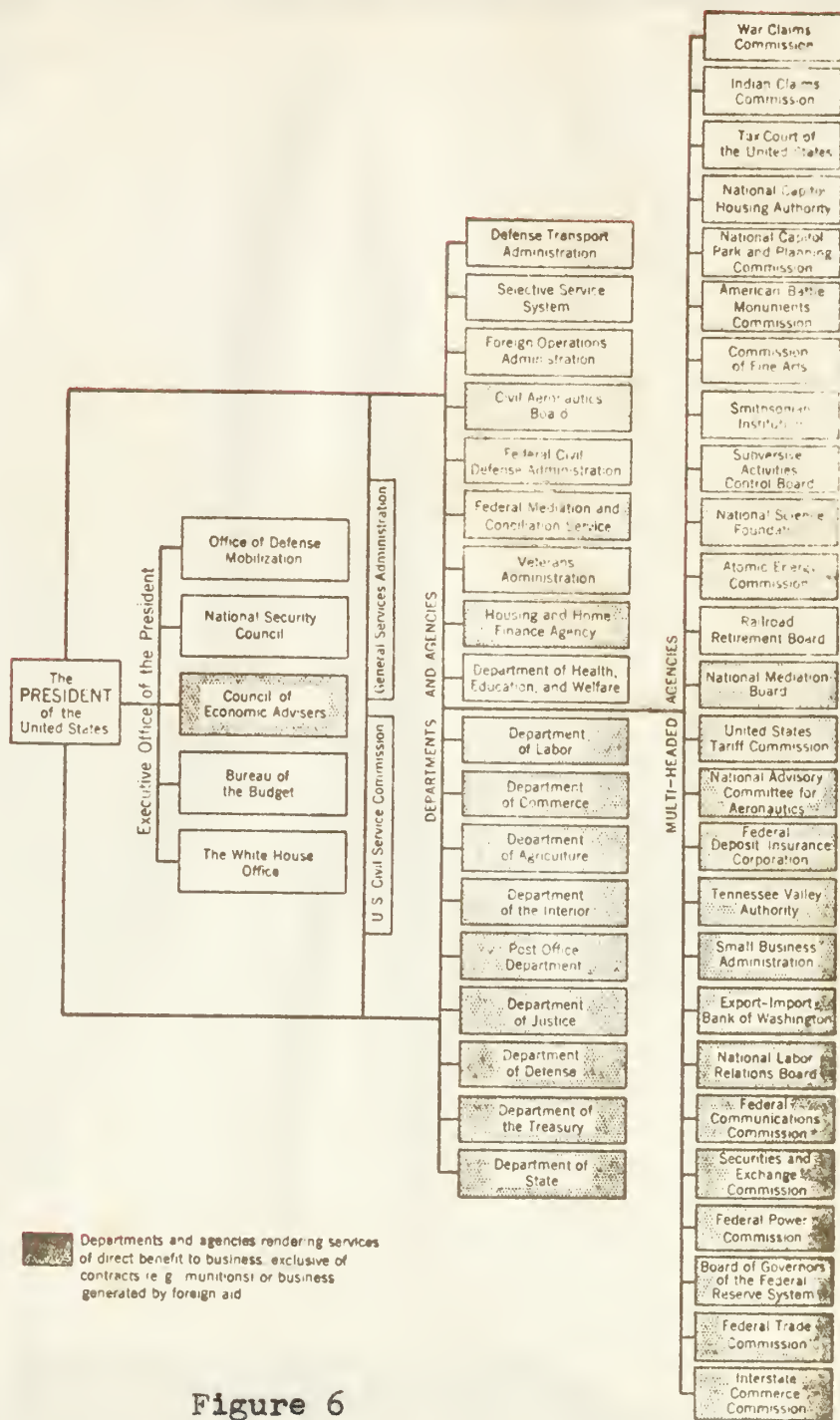


Figure 6

Source: Robert K. Carr, et al., American Democracy in Theory and Practice--National, State and Local Government, Revised Ed. (New York: Rinehart and Co. Inc., 1956), p. 726.

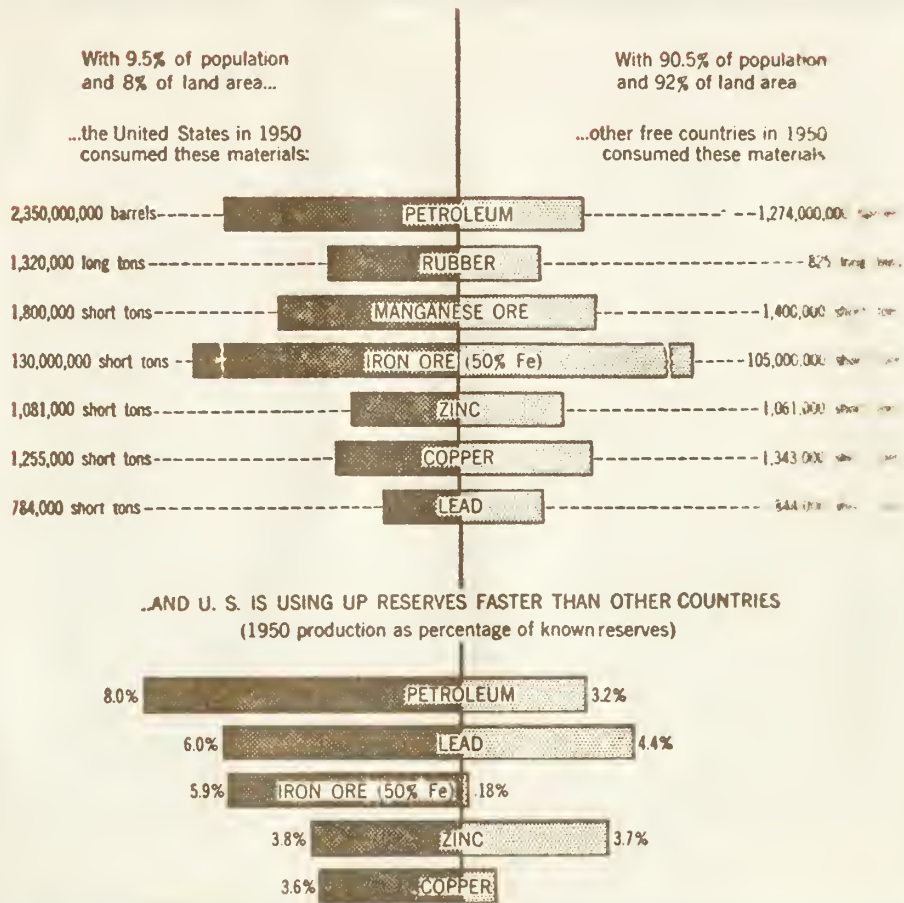


Figure 7.--U. S. is Free World's Biggest Materials Consumer.

Source: Robert K. Carr, et al., American Democracy in Theory and Practice--National, State and Local Government, Revised Ed. (New York: Rinehart and Co. Inc., 1956), p. 764.

CHAPTER VI

CONCLUSIONS

The strength of a nation is the accomplishment of its entire citizenry and it is here that the free society has had its greatest triumph.¹

Our country was founded on freedom of the individual to act and develop. Because of this and other factors of resources and population the economy grew rapidly.

Mass production brought new markets and group action. These, in the main, further increased production, creating more jobs and purchasing power.

Bigness in business, agriculture and labor appeared and caused the loss of individualism. This created big government. Our recovery of individualism in bigness lies in administration by objectives. That is centralized policies and decentralized execution allowing individual initiative in all segments of society.

The problems of business are the problems of labor seen from the other side of the bargaining table. The problems of agriculture are the same as business because agriculture is in the business system. The problems of Government are the problems of the other segments because Government is the

¹Crawford H. Greenewalt, The Uncommon Man (New York: McGraw Hill Book Co. Inc., 1959), p. 2.

catalyst of our economy.

The interdependence of the segments of our way of life is complete. Our future growth, prosperity and freedom lies in the coordination and cooperation of these groups in solving the problems of profitability, technology and population security within the competitive enterprise system.

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