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Full Recovery or Stagnation? and The Economics of Labor

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REVIEWS


If you can forget for a while the melodrama of local and international politics, which makes it unlikely that the sweet reasonableness of professors will prevail, Professor Hansen’s notable collection of recent papers is reassuring reading. And even if you are a complete pessimist about the shape of things to come, you should find a wistful pleasure in his picture of what might be, or what might have been, in the democratic world. For Full Recovery or Stagnation? belongs with and substantially supplements the recent barrage of tracts defending the faiths of democracy. In most of those books the political or moral argument for democracy is weakened by a vague fatalism about the future of the economic system. Some lack economic analysis altogether; others accept or advance a variant of the proposition that the capitalist economy as we have known it is dead, and must be replaced by a regime of “planning.” In either case the pamphleteers treat the economic side of the problem of democracy briefly and ambiguously, some without much concern for the more authoritarian implications of the slogan of “planning.” But Hansen considers the economics of capitalism with persuasive concreteness. What he says is that our brand of capitalism has not necessarily met its day of judgment: it follows that praise of political democracy is not yet idle talk.

The first section of Full Recovery or Stagnation? criticizes recent formulations of trade cycle theory, and gives Hansen a chance to state his own view of the problem, as background for the applied economics of the rest of the book. His analysis is an effective and critical restatement of conclusions which represent the upshot of recent work in the field.

“The essential characteristic of the business cycle,” he says, is fluctuation in the output of durable goods. The purchase of durable goods has been financed in large part by the sale of securities, or by the creation of corporate surpluses and of reserves for depreciation and obsolescence. Many factors affect the output of capital goods, by influencing both the attractiveness of

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2. Substantially the same economic point of view is forcefully put in Rogers’ Capitalism in Crisis, and An Economic Program for American Democracy, by Gilbert and others.

3. P. 328.

4. The term is used by Hansen, and in this review, as equivalent of the word “capital.” Pp. 126-127; 268-269.
capital expenditure, and the availability of funds with which to finance it. Expected conditions of cost and price measure the profit that can be anticipated from the use of new durable goods and thus the demand for investible funds. These factors also influence the availability of funds for capital expenditure, by altering the propensity of the public to save, and prevailing rates of interest. Banking and financial laws and institutions, of course, also affect the availability of funds for investment, by controlling the machinery of banking and of security flotation, and the ability of corporations to set aside funds for capital expenditure. There seems to be nothing mystical or automatic about fluctuations in expenditure for capital goods; both booms and slumps are caused, aggravated, and cured by governmental policy as well as by business action. The first article of Professor Hansen's politics is that in order to minimize unemployment and to offset fluctuations in trade government must act to maintain and increase the amount of capital expenditure made by the community.

Of all the techniques available to a democratic government for fulfilling such a policy, Professor Hansen finds government spending the most practical and the most promising. In effect he recommends that the government never balance its budget. The pill is sweetened a little. A separate budget should be established for the investment activities of the government, perhaps on the Swedish model. But in the end people must recognize the fact that investment expenditure by the government, whether called pump-priming or a less alarming name, is the only effective weapon against depressions available to capitalist and democratic governments. Furthermore, such expenditure, or a modification of it, will probably continue on a large scale in periods of recovery, as a device for insuring and regularizing the expansion of physical output that measures welfare.

The quality of our recent economic history makes a permanent expansion of investment expenditure by the government almost inevitable, if full recovery is ever to be achieved and maintained. Pump-priming undertaken by business interests, and privately financed, has almost disappeared. But full employment has always depended on pump-priming. In the nineteenth century, booms followed the speculative expenditure of private funds on railway building, subsidized by federal land grants and other gratuities. High levels of employment during the twenties were supported, as Hansen points out, by great outlays for residential building, for public works and for foreign trade, as well as by the creation of several new industries. This decade, however, has found nothing but the government deficit to replace the more familiar and respectable pump-priming of earlier periods. Business expenditure for capital goods rose during the recovery of 1937, it is true, in proportion to the general rise in income. But such careful expenditure for replacement and expansion followed the rise in income, and did not lead it. Mass expenditure is needed to increase the national income sharply. So far in this decade such expenditure has been made only via government spending for relief, for armaments or for public works.

If any lesson of the Great Depression is clear, it is that expenditure by the government for houses or hospitals is not less useful or less stimulat-
ing to business than comparable expenditure by private groups. Hansen empha-
sizes the importance of seeing to it that government funds are well spent, on projects which seem worth what they cost. Government expenditure of this type is more than a device for engineering recovery, especially if it is designed to stimulate spending by business; it adds directly to the real income of the community, as well as to its money income. It serves to increase mass consumption and mass welfare.

Of course the need for investment undertaken at the initiative of government would be reduced if investment by business would or could revive on a suffi-
cient scale. But both luck and the structure of economic institutions seem likely to oppose any great revival of private pump-priming in the near future. Important capital consuming inventions have not appeared in fifteen years or more. With the end of immigration and the spread of birth control, the rate of population growth has declined sharply. Foreign trade, despite the energy and relative success of Secretary Hull, offers no outlet for investment on the scale required to support a boom. And the ossification of the price system tends to restrict even the amount of investment that business makes in response to government spending. Some of these factors of inflexi-
bility and stagnation can be opposed directly, others must be offset by compen-
satory governmental action, if full recovery is to be achieved.

A program of investment, whether sponsored by the government or by private groups, is not enough to assure full recovery. Though full recovery should be easier to reach in a period of expansion supported by government expenditure, a successful program of recovery, Professor Hansen argues, requires that something be done about the decline of competition, the force for stagnation more nearly susceptible of control than the others. "The great danger in an enlarged program of public investment is that we are likely to rely too exclusively on it alone. If we are not constantly awake to the urgent necessity of achieving a balance in the cost-price-income structure, we shall greatly intensify our problem by choking off otherwise available private in-
vestment outlets . . . Above all it is of the utmost importance to break through the frozen structure of administered prices and preferential intercorporate reciprocity (so inimical to price competition) in order that technical progress may have free play to tap an ever-widening circle of consumer demand, and thereby enable us to maintain a workable economy. If private capitalism cannot solve its price problem, it will inevitably dig its own grave." The conclusion is strongly urged that the problem must be solved by making prices lower and more flexible, with a view to forcing costs as low as possible. Prices in general, he contends, should be responsive to competition, wages to the control of a mature system of collective bargaining, interest charges to direct action by governmental bodies.

Hansen does not expressly indicate his choice of sides in the controversy about how to achieve price flexibility. In view of his position at large,
however, there is little doubt that he would probably vote with most of his
generation of economists for a price policy of modernized, imaginative and
ergetic trust-busting.\textsuperscript{10} Against this view that the best available policy for
competition is to make it as competitive as possible, Burns and others contend
that "attempts to restore competitive behavior by law offer no prospect for
dealing with the developing element of monopolistic control in industry."\textsuperscript{11}
The conflict of counsel before the Temporary Economic Committee dramatizes
the issue. Definite answers, if they are ever to be made, require both further
study and further experiments in reforming and enforcing the laws and legal
arrangements which affect competition. Meanwhile Hansen puts the case for
lowered costs, and, by implication at least, for more competition.

Hansen's treatment of the price problem is the least developed part of
his argument. His emphasis is on the central importance of monetary policy
and government expenditure for bringing about and maintaining recovery.
Wage policy, tariff policy, price policy, these and other branches of an
economic program are in his view of vital importance, but to supplement and
effectuate—and not to oppose—a primary policy of direct expansion. Thus
he devotes two lucid chapters to the administration of social security funds,
concluding that the present federal machinery operates as a deflationary drag
on the economic system. He analyzes "the utter fallacy"\textsuperscript{12} of the philosophy
behind the N.R.A., and considers the government's disastrous monetary policy
of 1937, which probably initiated and certainly prolonged the recession
of 1937–1938. But in the argument of his book these matters are in a sense
collateral. He is concerned with the ultimate question which economists must
face—perhaps the only question worth asking them, in this tenth year of
depression: can anything be done to make capitalist democracy work? His
answer is forceful and affirmative, and it represents the view of a wide bloc
of economic opinion. The key to it is an emphasis on the crucial importance
of direct action to put men to work creating and accumulating capital re-
sources.\textsuperscript{13}

The work of Millis and Montgomery deals with the same problems of
economic welfare, but in a different perspective, on a different scale, and with
less striking success. Their two big, closely printed volumes purport to be
comprehensive surveys of most of the current literature bearing on a great
variety of labor problems. They have the heavy-footed quality of textbooks,

\begin{itemize}
\item \textsuperscript{10} See \textsc{Rogers, Capitalism in Crisis} (1938) ch. 2; \textsc{Mason, Slichter, Gideone}, and
\textsc{others, in Monopoly and Competition in Industry and Labor} (1939) 18 \textsc{Acad. of Pol. Sci.
Proc.} 123 ff.; \textsc{Watkins, The Monopoly Investigation} (1939) 28 \textsc{Yale Rev.} 323; \textsc{Fetter,
Planning for Totalitarian Monopoly} (1937) 45 \textsc{J. Pol. Econ.} 95.
\item \textsuperscript{11} \textsc{Burns, The Decline of Competition} (1936) 526; \textit{cf.} \textsc{Dennision and Galbraith,
Modern Competition and Business Policy} (1938) Pp. 79–85.
\item \textsuperscript{12} P. 287.
\item \textsuperscript{13} Hansen sees no \textit{economic} reason for general pessimism about the future: "It is
a mistake to assume, as some have, that public investment necessarily foreshadows the
doom of private enterprise. Indeed, if reasonably full employment can, by these and
other measures, be maintained, private investment outlets, while relatively smaller in
relation to the total economy, may well grow absolutely. We may thus learn that there
is nothing incompatible between the survival of private capitalism and a generous admix-
ture of public investment." P. 329.
\end{itemize}
and something of the textbook's fear of exposing definite opinions, but there can be no doubt of their utility in collecting and reviewing a considerable share of the recent work about labor done by economists, statisticians and lawyers.

The plan of Volume I, primarily the responsibility of Professor Montgomery, is to consider whether the purchasing power of worker incomes has decreased or increased in the nineteenth and twentieth centuries; how workers have fared in comparison with other economic classes; why changes occur in real wages, and in the shares of the classes in the national income; and, finally, whether the prevailing and prospective standard of wages is socially adequate.\textsuperscript{14}

The premise of Hansen's book is that important progress in the elimination of poverty can come only through increases in output—full and steady employment of resources, a high rate of capital accumulation, low prices and costs. Hansen concludes that unions function as factors of stability in the social and economic system,\textsuperscript{15} not with notable success as agencies for substantially improving the condition of the working classes. Insofar as wages are high and rigid, he finds them as inimical to the expansion of output as high prices for commodities.

At a less critical and sophisticated level, Professor Montgomery's book represents the same point of view and advances the same conclusion. During the last century there has been, he shows, a steady increase in the purchasing power of the working classes. He finds the main factor in that advance to be the increasing productivity of labor, that is, the increased ability of labor to produce goods and services. Such increases in the capacity of labor to produce result primarily from the increased use of capital goods in the processes of production.\textsuperscript{16}

If the accumulation of capital is the major force operating to increase the real income of the community—of labor and of other groups as well—what is the effect of unionism and wage regulation on the welfare of the working classes? The authors defer to their forthcoming third volume a full inquiry into the economics of unionism. They will there consider the effect of unionism on the size of the national income, and the efficacy of union organization as a device for increasing labor's share of the national income. But in Professor Montgomery's discussion of wage theory, in Volume I, he takes the view that at most periods of the trade cycle increases in money wages reduce employment.\textsuperscript{17} And he necessarily agrees with Douglas' conclusion\textsuperscript{18} that unionism can increase the reward of labor, and has so increased labor's reward, to a narrowly limited extent, and then only in the early stages of a union's history, although it may later serve to preserve existing wage rates against reduction. Wage regulation, he finds, may be defended as a device for eliminating sub-standard wages.\textsuperscript{19} His position as to the desirability and effectiveness of wage

\textsuperscript{14} The Economics of Labor, Vol. I, pp. 41-43.

\textsuperscript{15} "A country that does not have well established industrial relations based on responsible unionism is sitting on a volcano." P. 328.


\textsuperscript{17} Vol. I, pp. 181-198; p. 507.

\textsuperscript{18} Vol. I, pp. 212 ff; and see p. 194, n. 1.

\textsuperscript{19} Vol. I, Ch. vi, and p. 375.
regulation in general is somewhat obscure, but it seems fair to read the chapter as conceding the weaknesses of the doctrine that higher wages expand employment by increasing "purchasing power." 20

The second volume, written primarily by Professor Millis, seems less adequate and less imaginative than the first. Its topic is labor's risks and social insurance, and it starts with a survey of unemployment, as the chief of such risks. The analysis of what causes unemployment, especially the three meager pages on trade cycles, is a good deal more blurred, and less up-to-date, than the economic passages of Volume I. Professor Millis considers (and strongly approves) two classes of remedy for unemployment—public works and relief spending on the one hand, and social insurance on the other. 21

Professor Millis' discussion of social insurance laws, both in the United States and abroad, seems factually accurate, and reviews encyclopedically the arguments for and against most of the devices used in such insurance. But the conclusions reached will be attacked in many particulars, especially in their reference to the economic problems implicit in such legislation and its administration. The authors accept, for example, the payroll tax as the principal method of financing unemployment and old age insurance. They disapprove of substantial contributions by the government either for old age or for unemployment insurance, but favor such contributions for health insurance. And their analysis of the problem of reserves is limited in scope and inconclusive.

Social insurance has become a major concern of government, and a major problem of economic policy. Until our system of social insurance is adequately organized, financed and administered the job of planning and reforming the social insurance laws must actively worry lawyers, economists and public officials. Professor Millis' volume collects some of the materials which anyone approaching the job needs for background, but it breaks no path toward a solution.

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When government enters the field of commercial enterprise and statesmen choose as an administrative vehicle the corporate form of organization, conflicting desiderata produce grave problems for the student and technician of public administration. Public enterprise is inherently different from other types of government activity. If the use of the corporation has any justification, it lies in the freedom of its directors, in matters of detailed policy, organization, personnel, and finance, to conduct its operations with that flexibility and resourcefulness which are expected of the best private entrepreneurs. Yet


21. The discussion extends to workmen's compensation and health insurance as well as to unemployment and old age insurance.

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