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COLONIAL POLICY

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FROM THE C.E.D. . . . A FRAMEWORK FOR THE POSTWAR ECONOMY

I

The good of all—the common good—is a means to the enduring happiness of every individual in society and is superior to the economic interest of any private group, not only in war (when the validity of the principle is obvious) but in peace as well.

II

The privilege and responsibility of every citizen in a democratic society is to share in defining the common good as well as in giving service to it. The economic system is a tool for achieving the common good and in a free society is shaped, maintained, and modified by the free choice of the whole community.

III

The economic system chosen by the American community is loosely (often too loosely) called the free-enterprise system. This system, when it functions properly, permits the maximum freedom to the individual consistent with the common good. It supports and reinforces political liberty and provides the greatest opportunities for the development of all men and the attainment of their individual as well as their common aspirations.

IV

In a democracy there is a place for private enterprise and there is a place for public enterprise, and it is necessary to clarify basic lines of division between them. The area for private enterprise should extend to the limit of the ability of private individuals better to serve the common good. Beyond this limit, government enterprise can better serve that good.

V

In that part of the economy where private enterprise can better serve the common good, the people through their government must devise and enforce rules of the game—reasonably stable rules that will encourage private, voluntary enterprise—rules to which government itself will adhere and which government will enforce—rules that intelligent and forward-looking men can understand and under which they can operate for the common and their own good.

VI

Essential to a system of free enterprise is a climate in which new, small, and independent business can be conceived and born, can grow and prosper. New, small business is the bulwark of a system of free

and private enterprise. If the opportunities for new business are destroyed or otherwise disappear, a system of free enterprise will atrophy.

VII

It is in the public interest that business organizations be allowed to grow and become great as the result of useful service to the community. Provided that the power that comes with size is not permitted to stifle competition and is not permitted in other ways to be abused, big business can serve the common good.

VIII

To compensate for the weakness of their individual bargaining position, wage earners need the right to combine into organizations for collective bargaining. Provided that the power of these organizations is not permitted to stifle technical progress, or unduly to limit access to jobs, or in other ways to be abused, labor unions can serve the common good.

IX

It is the natural tendency of men with interests in common to organize into groups for their own advantage. Such organizations, not only in business and labor but in agriculture and among veterans and consumers and others, can help their members and the general community to a better understanding of the relation of individual interests to the common interest. Such group organizations can thus be a powerful force in promoting the democratic process. However, should they use their power to further monopolistic practices, cartels, or other special interests that check the rise of the country's standard of living, they can become dangerous. In unnatural combination with other self-seeking interests, a so-called "pressure group" can pervert the integrity of the legislative process. Such activities may constitute the great political problem of America in the days ahead. All organized groups must subordinate their narrow, selfish interests to the broader common interest. They must voluntarily accept social responsibility or, failing this, their activities must be curbed by the people as a whole in order to preserve a free society for the individual.

X

Prolonged and severe depressions, as the result of which millions lose their savings and their jobs, cannot be accepted as natural and irremediable phenomena. The people's elected representatives and the agencies of government are responsible for establishing fiscal, monetary, and other

policies that help prevent the fever of inflation and the paralysis of deflation and depression. Constructive policies respecting taxation and public expenditures (including expenditures for public works), intelligent handling of the national debt, and enlightened control over credit and money can greatly retard or prevent excessive swings of the business cycle. Consistent governmental policies that conform to the community's standards of justice, and that are understood by the community, are vital both for developing consumer and business confidence and for maintaining the flow of buying power needed to sustain high levels of employment and productivity.

XI

To the extent that the free-enterprise system fails to meet the imperative need for high employment and productivity, the cause of the difficulty must be identified and removed as promptly as possible. While taking steps to expand private employment and needed public employment, the government must do its best to provide for those who are unable to find work, never losing sight of the fact that unemployment benefits are at best but a poor substitute for the opportunity to work and earn a living. The American people recognize that the adjustments which are inevitable in a changing and developing economy often work hardships on individuals. Through their federal government, they have wisely provided in the past, and should continue to provide in the future, a program of social security—unemployment insurance and old-age pensions—for the benefit of those who are unable to work or, if able and willing to work, are for any reason whatever unable to find sufficiently remunerative employment to protect themselves against want. Such individual protection against hazards should be extended as rapidly as practicable.

XII

An economic system based on private enterprise, Americans believe, can better serve the common good, not because it enables some men to enrich themselves, but because it develops a high and rapidly rising level of living. It can best ensure the American prosperity so vital to world prosperity and to world peace. It can provide the maximum economic opportunity for the largest number of individuals of the community. It can foster the development of the native capacity, ambition, and resourcefulness of the individuals of the community, and protect the personal freedom and well-being of the individual from the dangers inherent in too great a concentration of either private or public power

THE ECONOMICS OF A FREE SOCIETY

A DECLARATION OF AMERICAN ECONOMIC POLICY

by *William B. Benton*

Vice Chairman, Board of Trustees, the Committee for Economic Development

The twelve-point statement on the opposite page and the exposition of policy that follows were prepared by Mr. Benton at the request of the research committee of the Committee for Economic Development. Though Mr. Benton assumes personal responsibility for these documents, they have of course been approved in principle by top leaders of the C.E.D. and its economic advisers. Because they represent the first and only attempt to formulate a statement of basic economic philosophy for the C.E.D., the editors of FORTUNE believe they are of national significance and are publishing them in full.

C.E.D. was formed in the summer of 1942 by a few forward-looking businessmen who were concerned about the part that business would be called upon to play in the eventual transition from a war to a peace economy. In two years C.E.D. has expanded to embrace 50,000 businessmen, large and small, in 2,000 cities and towns all over the U.S. Its research division employs top-flight economists to study policies bearing on reconversion and prosperity, such as how war contracts should be canceled, manpower demobilization, postwar tax changes, the special problems of small business. Its field development division gets individual businessmen to plan their post-war production now so reconversion strains will be minimized and business' own sights set for high employment.

The moving spirits of C.E.D. are men like Paul Hoffman, President of the Studebaker Corp., who is Chairman of the C.E.D.'s Board of Trustees; Mr. Benton, onetime adman (Benton & Bowles), now Vice President of the University of Chicago and Chairman of the Encyclopaedia Britannica; Ralph Flanders, head of Jones & Lamson and Director of the Federal Reserve Bank of Boston, chairman of C.E.D.'s research committee; Marion Folsom, Treasurer of the Eastman Kodak Co., chairman of C.E.D.'s field development division. From the start C.E.D. has declared that it is indeed a committee, not a permanent business organization like the Chamber of Commerce or the National Association of Manufacturers, and that it will be disbanded after the reconversion job is done.

Mr. Benton's drafts, completed after criticism and advice from the research committee and its leading economists, will now go out to 2,000 C.E.D. community chairmen for local discussion and distribution to the 50,000 members.

The conversion to peacetime production and the establishment thereafter of new high levels of employment, production, and consumption are problems that all Americans must face. In particular, businessmen must grapple with these problems. They must begin to grapple with them now. They owe this to their fellow citizens in their own role as citizens. They owe it too to themselves in their role as businessmen. And above all they owe it to the men and women who are now in the armed services. These problems are too urgent and too serious to be left to chance.

In a free society all men are *common* in their rights and opportunities. They are frequently *uncommon* in their individual capacities to contribute to the common good.

The free-enterprise system is a way of economic life open to hope—an economy open to new ideas, new products, new jobs, new men. It stimulates men of all talents and capacities to serve to the best of their abilities. It promotes the capacity of men for bold and independent action. The opportunity to compete in a free and open market encourages men to study the actions of others critically—not passively to accept them—and then resourcefully to act for themselves or for their companies in supplying goods or services to the public.

The pattern of the past is clearly visible: the economy of the U.S., originally largely self-regulated through competition, has been gradually modified as competition has lessened and as periods of depression have deepened, with the government playing an increasing role. There have always been rules laid down by the government, but the actions of businessmen have been largely determined by themselves and by the actions of their competitors.

The twelve points on the opposite page outline a basis for freedom under rules to which free men can subscribe today. These twelve points constitute a faith that preserves individual freedom and yet recognizes the new role of government. Point X, which deals with the government's fiscal control, would not have been widely accepted a generation ago. Points VIII and XI, dealing with collective bargaining and social security, also develop from the lessons of recent experience.

When we speak of a free-enterprise system, we use a term that has been widely misunderstood, as much because of the practices of its professed friends as because of the professions of its actual enemies. It is of vital importance to the future of the country that the term be properly understood.

WHAT A FREE-ENTERPRISE SYSTEM IS NOT

The free-enterprise system is not, never has been, and never should be, a system of complete *laissez faire*. For instance, it is: not the freedom to seek profit by any and all means;

WE ARE fighting and working for the preservation and improvement of a free society. Today victory is our purpose. Tomorrow our goal will be jobs, peacetime production, high living standards, and opportunity. This is more than "freedom from want." It is "freedom of opportunity." We are fighting for *both* freedom from want and freedom of opportunity.

—not the right to profit at the expense of the welfare of the community;

—not the freedom of any man to exploit any other;

—not the freedom to waste the natural resources of the country;

—not the right to monopolize (which impedes or prevents the establishment of new businesses, creates scarcity, and imperils the spirit of enterprise);

—not the opposition to necessary and appropriate government regulation or operation (often for no other reason than that it is governmental);

—not the appeal to government for subsidy or protection whenever adversity appears.

These distortions have never belonged in a properly functioning system of free enterprise. They tend to pull down private enterprise. They can pull democratic government down on top of them. Indeed the amazing fact is that a system so much abused and so little understood has functioned as well as it has. Past deficiencies, however, do not demonstrate that a free-enterprise system will not work. They merely demonstrate that we have not yet made a concerted and deliberate effort to make it work with full effectiveness. We must learn how to outlaw its perversions and how to preserve and expand those beneficial features essential to a free society.

WHAT A FREE-ENTERPRISE SYSTEM IS

The free-enterprise system is a system of production, investment, and consumption under which private individuals and business firms, largely by their own initiative and responsibility, combine the community's labor skills, managerial skills, and capital to produce the bulk of the goods and services men want. Its most characteristic features as compared with other economic systems are: maximum dependence upon competition and the free play of prices to determine who shall produce what, maximum dependence on profit as an incentive rather than on compulsion or prestige, and maximum emphasis on free personal choice among the economic opportunities—be they goods or jobs—that are available to men.

Under a free-enterprise system, men risk their resources in private venture in the hope of personal gain. A free enterpriser is a young man going to night school to train himself for a profession, a lawyer moving to another locality in the hope of developing a better practice, a worker taking special training to achieve a skilled status, a man shifting from one job to another in search of a better opportunity. In a system of free enterprise, private assets, whether of money, talent, ambition, or energy, are risked in the hope of gain—whether by a businessman seeking profit at the risk of loss, by a tenant buying his own farm at the risk of a mortgage debt, or by a young man starting his own small business at the risk of losing his savings and the steady job he held. A true system of free enterprise thus encourages venture and risk taking, whether by an individual worker or by a group of individuals in the form of a cooperative or a big corporation.

In the U.S. there are four million or more farm enterprisers, more than one million self-employed who work as their own bosses, more than two million private businesses with one or more employees. These provide enormous opportunities for innovation and experimentation. After the war, America must create an economic climate that will develop millions more. Can any centrally controlled economy hope to maintain the

dynamic drive, the ingenuity, or the diversity of creative impulse of these millions of enterprises? Their persistent search for improvement results in progress: better products and services adapted more closely to the desires of the buyers at ever lower prices. The driving energy of private incentive thus serves the economic good of the nation as a whole.

The effect of this drive for improvement is clearly visible in the history of the last forty years. Since 1900, new and better machines and better methods have more than tripled manufacturing output per man-hour of work. For the economy as a whole, output per man-hour in recent decades has been increasing at the rate of $2\frac{1}{2}$ per cent per year.

Much of this increased production, moreover, has reached the consumer in the form of new and improved products—the radio, the automobile, the airplane, electrical household equipment, vitamins, and a thousand other things that have enhanced enjoyment and opened up new vistas of good living.

Nor is there indication that the upward trend of production per man-hour is slackening or is likely soon to slacken. If it is merely maintained at $2\frac{1}{2}$ per cent per year, the production per hour of work will be doubled in the course of the next twenty-eight years. That will give us twice as large a volume of goods and services per capita if we maintain high employment or, if it seems preferable, we may have an equivalent combination of more production and more leisure. This is no fantastic dream. It can be achieved. It will be achieved if we maintain the essential features of our system of free enterprise and successfully prevent mass unemployment.

Further, a free market open to the development of new, independent enterprises will continue to provide an economic basis for political freedom. Such a market breeds the millions of rival producers and sellers who do not need to cater to private or public overlords. They help keep the balance on the side of freedom and against the arbitrary exercise of economic power. They provide the competition that minimizes the need for government regulation and operation. They provide an element of balance that counteracts potential dangers to our democratic institutions.

Lack of competition stifles the free market. So-called monopoly practices of business, labor, and government, which remove the necessity of trying to undersell a competitor or to match or improve on his quality, induce complacency. Such practices have no place in a free-enterprise system designed to serve the common good. They require government action either to remove their source or, where monopoly is essential to public service, to regulate them in the public interest.

The American people have continued up to now to tolerate abuses that have developed in our economic system because of their conviction that the free-enterprise system, however they may have abused it, has achieved a net gain substantially greater than that to be expected from any other system. They believe it can be made to work for the good of all. They want it to work with the maximum possible effectiveness. They see in it a chance for a better life for themselves. Almost unanimously, they want it for their sons and daughters. They see in it an economic tool that properly used will reinforce and not endanger constitutional democracy.

THE U.S. IN THE WORLD ECONOMY

After the war, the U.S. must decide on how best it can aid in the maintenance of world peace. It must decide on the part

it will play in the world economy. Under its bylaws the Committee for Economic Development dedicates itself to the problems of the domestic economy. However, its members recognize the imperative necessity of a world climate favorable to enterprise and believe that high levels of employment and productivity can be most readily achieved and maintained in America in a world environment providing a maximum opportunity for private enterprise in international trade.

Questions pertaining to our international obligations and our international economic opportunities involve matters of military and political, as well as economic, strategy. They are not ours in the U.S. alone to decide. Decisions of other countries will inevitably affect ours and will do so in ways that are hard to foretell.

One thing is certain: the maintenance of high levels of production and employment in the U.S. will be one of the most important influences contributing to prosperity and peace throughout the world. Depression here will breed depression if not fascism abroad. Prosperity here will beget prosperity and stability in other countries.

After the war, the U.S. must learn to import, as well as export, if we are not to disrupt the economies of other countries and if we want to be paid for what we sell. We must buy goods and services from others to give them the means to buy from us.

Whatever America's future role in world trade and commerce, it has the strength and must develop the ability to work out its economic destiny within the framework of a system of free enterprise for itself. Within this framework, it must learn how to deal with those countries that have other economic systems.

GOVERNMENT AND BUSINESS

If private enterprise is to fulfill its promise and its obligations, the people through their government must police it without obstructing it, must encourage it without pampering it, and must help provide it with a balance wheel in times of business boom or depression.

We are at a crucial point in the development of free enterprise in America and in the world. From the founding of America to the closing of the western frontier, American enterprise kept pace with the expanding population that penetrated the empty or thinly inhabited acres of the West. Since then the development of American enterprise has been based on the boundless opportunities offered by the ever accelerating wants of the ever more populated centers of the U.S. and the globe. The present social and scientific frontier offers greater opportunities than did the thinly populated geographic frontier for high production, consumption, and employment. In the development of this new frontier, great economic organizations have been created that present new problems in the relations of government and business. Before we can take full advantage of the internal frontier, we must develop greater insight into the responsibilities of both government and business and into the rules upon which a free-enterprise system must rest.

Much past government regulation has been necessary and in the interest of preserving free enterprise. All wartime regulations, when hostilities cease, cannot be immediately removed on the fallacious principle of "a return to normalcy." After the war, the role of "government-in-business" will and must

be lessened in many areas of the economy, transferred in others, and increased in still others.

A high degree of imagination, goodwill, and inventiveness will be required in the new world after the war to work out improved rules of the game. We shall require improved forms of administrative organization for carrying out those rules, in the enforcement of which a large measure of human discretion is required. The more skillfully we handle the role of government in the economy, the less the role that government may have to play. More adequate government skills must be devised, for example, to help stabilize the economy against the effects of the "business cycle."

We must rid the economy of injurious or unnecessary governmental regulation, as well as administration that is hostile or harmful. Moreover, businessmen must rid themselves of hostility to evolution and change in the responsibilities of government in the discharge of its proper functions. Without government, business cannot do the job after this war that must be done. Wherein is government regulation in the public interest? Wherein is it restrictive and harmful? The answer to these questions is imperative to the future of our economy.

Prior to the depression of the thirties, the government budget averaged around \$3,500,000,000—about 50 per cent of corporate profits in a fairly good year. After the war, the government budget will perhaps average \$16 billion to \$18 billion—more than corporate profits are likely to be. If mass unemployment is to be prevented, the American economy must provide seven to ten million more jobs than in 1940, a year of peak peacetime production. If America is to raise its standard of living, and to meet its governmental expenditures out of national income, these jobs must be productive jobs—they must be jobs that are responsive to the need and demand of the public.

After the war, the American people must insist that their government pursue constructive fiscal, monetary, and other policies that provide a climate in which a private-enterprise system can flourish. The failure to insist on this may lead to some form of dictatorship or fascism. Thus far the appeal of totalitarianism has fallen on deaf ears in the U.S. community. But totalitarianism thrives on fear bred by war and want. If, after the war, millions of men cannot find work that gives a man human dignity, our democratic community may turn to it in desperation.

OPPORTUNITY AND SECURITY

"Opportunity" and "security" are not conflicting alternatives. Opportunity is an indispensable part of true security—the opportunity to earn an adequate income through work, the opportunity to risk one's energy and savings for profit, the opportunity to live decently, to aspire to live better, to educate one's children, and to develop the highest powers inherent in every man.

Throughout all history, men have not been able to grow enough food for all the people, or to build them all homes, or to provide them all with adequate clothing. The technological advances already achieved by industry demonstrate the possibility of creating high levels of food and shelter and clothing for all our people. No artificial restrictions should be allowed to stand in the way of further technological advances and their full utilization. Labor, agriculture, and government, as well as business, must divest themselves of all practices



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The Economics of a Free Society

[Continued from page 165]

that check expansion of production or that restrict output. They must all make appropriate adjustments to the age of abundance which today's technical advances have made possible. In so doing, they can find their own opportunities and at the same time fulfill their obligations. Thus they can play their part in a free-enterprise system that makes possible genuine security.

While it is obvious that real security lies in the availability of good jobs, men should and will seek security against the hazards of unemployment and the inability to work. The goods and services required to supply security against unemployment and old age are, however, derived from the total production of the economic system. A bookkeeping credit to an old-age pension in 1944 must be paid out of the country's total production when the credit falls due. To achieve high production, so that such credits can be paid without hardship, our system requires rewards for energy and initiative. A balance must be struck between the output going to provide security and the output going to provide rewards for work, i.e., wages, salaries, fees, royalties, profits, etc. Only if opportunity for reward is provided will the economic system develop the high level of production required to provide social security. Real security depends on the abundance to be shared. Only through providing opportunity for the individual can abundance be secured.

Men want the security that includes opportunity. It is discouragement that has germinated the "security psychosis" that in some countries has induced men to take a defeatist view of human life and abandon human freedom.

THERE'S STILL AN AMERICAN DREAM

There is nothing in all the horrors and suffering of war that gives anyone the right to believe that victory will produce utopia or anything like utopia. All victory will do is remove certain specific dangers. The process of making war may or may not increase the capacity of men to cooperate. The Committee for Economic Development believes that a major part of the problem after the war is to replace fear and discouragement by hope and initiative. It believes that ignorance of economic processes must give way to understanding and intelligent action. Through the enterprise of man, new high levels of employment and productivity can be achieved that will open new horizons of hope for the individual.

New products and services that only wait for development—they are everywhere around us—will beckon men on to renewed exertion. America stands at the gate of an age of plenty. The key is in our hand. A system of free enterprise, based upon the principles herein set forth, can act as the provider as well as the safeguard of democracy.

Most Americans would agree on the economic goals for America: a community permanently rich in opportunity and security. We can secure both if we work together. We can work together only if we understand one another. The people of America can build an America—and help build a world—that is in fact the land of the free.

We in America have always had a dream. We have never lost it. We have it now. With the enterprise, initiative, and good will of man urged on to the common good, we can make that dream come alive—not in the millennium but in the America of the approaching tomorrow.