

THE FUTURE
ECONOMIC POLICY
OF
THE UNITED STATES

WILLIAM ADAMS BROWN, JR.

WORLD PEACE FOUNDATION

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THE FUTURE ECONOMIC POLICY OF THE UNITED STATES

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PREFACE

THE *America Looks Ahead* series has as its purpose to provide the American public with concise and readable analyses of questions with which the United States will be confronted during the war period and particularly in the years following the war. These analyses are the product of informed and reasoned thinking, but the attempt is made in their actual presentation to avoid the use of technical terms and refinements of thought which might baffle the lay reader. In other words, while the approach in these studies is scholarly, a deliberate attempt is made to present the results of research and logical analysis in such form that interested persons without expert knowledge will be attracted to them.

The studies that have been published thus far in the series have been concerned primarily with the relations of the United States with other countries or geographical areas. Furthermore, with the exception of *Economic Defense of Latin America*, by Percy W. Bidwell, the emphasis has been on political problems and relations, in the sense in which the word "political" is commonly used. This study breaks new ground, in a sense, so far as this series is concerned, in that it deals with a broad problem of policy cutting across geographical lines, and more particularly with the economic aspects of policy, both in their domestic and foreign applications.

In this study Professor Brown is concerned with the general lines of the future economic policy of the United States. He sees the danger that in seeking to attain objectives which are mutually exclusive, if pushed to their logical

conclusions, we will become involved in inconsistencies, indecision and vacillation which will be fatal to our assumption of the role of post-war world leadership, essential to effective international economic collaboration. We must, therefore, have a consistent and unified policy. This must be true not only of our foreign and domestic policies considered independently but also of these policies considered in their relations to each other. In other words, we must have one unified national economic policy, whether that policy is viewed from the point of view of its domestic or its foreign application and effects.

Another point that Professor Brown stresses in the study is the necessity that the American people recognize the price that they must pay for the things which they want. This is not to say, of course, that in terms of long-run advantages, there is need of great sacrifices, but there undoubtedly are short-run advantages which the American people must be prepared to forego if we are to move forward toward the objectives stated in the Atlantic Charter and accepted by the American people. Only if the American people understand and accept these short-term costs will they successfully resist the temptation to turn their backs on international collaboration and return to "normalcy" at the conclusion of this war.

The American people cannot evade the questions which Professor Brown raises in this study. The future of the United States and of the whole world will be determined by the answers. Professor Brown suggests a middle way which in his opinion has a reasonable chance of being accepted.

LELAND M. GOODRICH,
Director.

September 1, 1943

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PART I

THE DANGERS AHEAD

CHAPTER I

OUR CONTRADICTIONARY AIMS

THE most perplexing and the most dangerous aspect of the post-war adjustment in the social and economic life of this country will probably be that the American people will demand and the Government will promise things that cannot *all* be had *at the same time*. We are, indeed, something like a man walking down the street with five or six dogs on a leash, all of various sizes and all trying to go in different directions for reasons they think good and sufficient.¹ The general direction in which they all advance will be some sort of a compromise, and in making this compromise the biggest dog will count the most.

One of the greatest difficulties in a democracy is to find acceptable compromises between interests and ideas each of which is legitimate, and each of which, taken by itself, is good and even praiseworthy. When, however, the conflict is between interests which are special and those which are general, there should be no doubt as to which should prevail. If, for example, as has been proposed, every American interest which feels itself aggrieved by a tariff concession granted in a reciprocal trade agreement could appear before a Customs Court, and have the concession set aside upon proof of injury to itself, the general benefits hoped for from such an agreement would soon be lost. In a democracy, if we are to advance towards any worthwhile economic and social goal, we have to recognize that

¹ This figure has been borrowed from Sir Arthur Salter, who applied it to the purchasing power theory of the foreign exchanges.

the public's general interest should prevail. It may not be possible to do this without causing disappointment and resentment in some quarters. If this leads to charges of broken promises and bad faith and introduces indecision and vacillation into our domestic policy, it will be disastrous both for us and for the rest of the world. By common consent, leadership in world affairs will be thrust upon us after the war, and a country cannot lead firmly and constructively if it cannot make up its own mind where it is going.

There is only one way by which we can escape the paralysis of will that overtakes a nation which strives earnestly to accomplish mutually exclusive purposes. It is by being willing to pay the cost of obtaining what we want most even if this cost includes the sacrifice of some of the things we would like to have. This is only to apply to the field of public policy the same faculty of choice-making that individuals apply daily in their ordinary lives. The economists, like the Greeks, have a word for it. They call it "opportunity costs." They mean by this simply that the cost of anything is the sacrifice of an opportunity to get something else. If America looks ahead without understanding that all post-war economic improvement will have to be purchased at a cost in this sense, it will be disillusioned. If it counts these costs and makes clear-cut choices when confronted with genuine alternatives, it will be rewarded.

There is no question that Americans are determined to preserve what we instinctively call "the American way of life." There is also no question that we are living in a world revolution. Phrases like "the end of an epoch," or "the beginning of a new world order" are far more than empty catchwords.¹ From the national debate on America's

¹ Cf. Aldous Huxley, "On Living in a Revolution," *Harpers*, September 1942.

future there must emerge some redefinition of our social and economic objectives, some consensus as to what the American people want "the American way of life" to become in the post-war period. If that can be accomplished, the United States can shape and guide the world revolution. If not, either other countries and other forces will shape and guide it, or we are in for a long period of internal strife and disintegrated and dangerous international relations as well.

In their hopes and plans for the future, Americans are in many respects a divided people. On certain broad objectives there is a good deal of agreement. Yet some of these, if stated in uncompromising and categorical terms rather than in terms of more or less, are mutually exclusive. It is therefore necessary to get down to cases—to become specific and to discover what these inner contradictions in our domestic aspirations may be. Some of them may be brought out by the simple expedient of putting down a few of our accepted objectives in "pairs."

Many if not most Americans want all of the following:

In Domestic Policy Proper

A free enterprise system and *Social security*

<i>Introduction of new inventions and the development of new industries which if successful will push back our industrial frontiers and change the geographical distribution of our productive plant</i>	and	<i>Support for industries and occupations to which men, money and resources have already been committed and on which the welfare of whole regions depends</i>
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In Domestic Policy Proper (Continued)

<i>Less Government regulation and control</i>	but	<i>No more booms and depressions</i>
<i>High wages and short hours</i>	and	<i>Full employment</i>
<i>A "sound" currency and banking system</i>	and	<i>Low interest rates</i>
<i>Less taxes</i>	and	<i>Less debt</i>

In Foreign Policy Proper

<i>Full national sovereignty</i>	and	<i>International organization to preserve peace</i>
<i>Reconstruction of Europe and development of backward countries</i>	but	<i>No economic imperialism</i>
<i>Stable exchanges</i>	but	<i>No exchange control</i>
<i>More international trade</i>	and	<i>Protection of established American economic interests</i>

In each of these "pairs" there are elements of contradiction, and these contradictions spread throughout the list. Few of them present a clear choice of all or nothing. How *much* of each of these aims will America strive to attain if it has to give up something of one or more of the other aims? The answer will depend, first, on how clearly the alternatives are understood. This is primarily an intellectual problem. It will depend, second, on whether we, as a democratic people, prove capable of making certain short-run sacrifices to attain long-run advantages.

This is primarily a political problem. It will depend, third, on certain general attitudes arising from our conception of "the American way of life"—twentieth century style. These attitudes will give a definite cumulative trend to our decisions on a multitude of specific questions of policy. This is primarily an emotional, moral and spiritual problem.

If, then, the American people are to arrive at some sort of unity of purpose in dealing with innumerable questions of policy relating to specific problems (such as those which have been suggested by the foregoing list of possibly contradictory aims), they should first clarify their thinking on those issues which present the greatest intellectual, political and emotional difficulty.

Can they, for example, have both social and economic security and retain the free enterprise system? Can they take a full and responsible part in a working world-economy and not sacrifice steady and full employment?

If the answers to these two crucial questions could be an unqualified "yes," the future would appear much brighter than it does to many students of contemporary affairs.

CHAPTER II

CLASHING DOMESTIC AND FOREIGN POLICIES

ECONOMIC security, free enterprise, full employment and the expansion of our international trade are all American objectives for the post-war world. But whether they are obtainable together may depend on the way in which we try to achieve each one separately.

We could, for example, in the name of free enterprise and full participation in international trade, greatly relax Government controls over economic life in fields where it has long been established, pursue a thoroughly "orthodox" fiscal policy, rapidly demobilize war-time restrictions, radically reduce tariff barriers, and eliminate foreign exchange and other financial controls. This would be a unified economic policy designed to increase as much as possible the mobility, flexibility and adaptability of our economy.

Already it is evident that features of such a program will have powerful support from certain sectors of our business life. Movements to "get Government out of business" and to curb "meddling bureaucracy with its red-tape and questionnaires," which are heard in ordinary times, may break loose in overwhelming force as the natural reaction from the all-pervading Governmental operations during total war. The heavy war debt will bring demands to balance the budget, similar to the reaction aroused against pump-

priming spending to offset unemployment. At the same time great industries waiting to resume the export of American machinery and products to hungry foreign markets will be supported by the public in seeking measures to promote vigorously our foreign trade.

Yet such a unified policy would fundamentally subordinate the ideal of economic security to the ideal of free enterprise, and it might even make short-run economic security impossible. For example, if Washington suddenly and drastically reduced Federal expenditures immediately upon the close of war under a budget-balancing drive, one effect might be to create a grave unemployment problem among the millions of men and women facing the transfer from armed services and war industries to peace-time pursuits. "Orthodox" fiscal policy would curtail deficit spending for public works to absorb the unemployed.

In the foreign trade and exchange field, such a program in some ways would greatly facilitate the restoration of world trade and the re-establishment of a complex multilateral clearing system, but it also would have certain drawbacks from an international point of view. If it should, as would be very probable, result in large cyclical fluctuations in the rate of American business activity, other countries, as well as ourselves, might suffer severely. Our depression of the '30's drastically reduced our purchases from foreign countries and spread upheavals abroad. The Government has been expanding its measures of intervention attempting to prevent runaway inflations and booms, and has extended unemployment insurance and public works to overcome stagnation. Removal of Government operations would restore greater freedom to private initiative, yet probably would result in bigger and sharper booms and crashes than those of the '20's.

Indeed, violent fluctuations in business activity in the United States would become a major obstacle to world reconstruction and peaceful international economic reconstruction.

Suppose in order to mitigate this instability, we should pursue a highly restrictive and protectionist foreign trade policy—increasing tariffs and thereby renewing the war of erecting higher and higher barriers to world trade—while clinging to the rest of this program. We thus not only would sacrifice our ideal of playing a constructive role in the development of international trade, but also a good deal of the mobility and flexibility aimed at by our purely domestic policy. We would in fact, find that we had not one economic program, but two, and we might run into serious difficulties when the domestic and foreign sides of our program came into conflict.

Suppose on the other hand, that in the name of security and for the sake of full employment, American policy were to develop along the following lines:

1. Vigorous protection, all along the line, of enterprises, occupations and activities which are menaced by the dynamic forces of change and technical progress, in order to prevent as far as possible what is known as technological unemployment.
2. High protection of industries subject to actual or potential foreign competition and vigorous efforts to press our exports on the rest of the world in order to safeguard and increase employment.
3. Large scale foreign lending, subject to the condition that the proceeds of our foreign loans should be spent only in the United States.
4. Adoption of an autonomous business cycle policy,