SSOAR

Open Access Repository
www.ssoar.info

Economic policy and the monopoly problem

Dilley

Veröffentlichungsversion / Published Version
Sammelwerksbeitrag / collection article

Empfohlene Zitierung / Suggested Citation:
Dilley (1948). Economic policy and the monopoly problem. In *Verhandlungen des 8. Deutschen Soziologentages vom 19.-21. September 1946 in Frankfurt am Main: Vorträge und Diskussionen in der Hauptversammlung und in den Sitzungen der Untergruppen* (pp. 115-134). Tübingen: Mohr Siebeck. https://nbn-resolving.org/urn:nbn:de:0168-ssoar-190236

Nutzungsbedingungen:
Dieser Text wird unter einer Deposit-Lizenz (Keine Weiterverbreitung - keine Bearbeitung) zur Verfügung gestellt. Gewährt wird ein nicht exklusives, nicht übertragbares, persönliches und beschränktes Recht auf Nutzung dieses Dokuments. Dieses Dokument ist ausschließlich für den persönlichen, nicht-kommerziellen Gebrauch bestimmt. Auf sämtlichen Kopien dieses Dokuments müssen alle Urheberrechtshinweise und sonstigen Hinweise auf gesetzlichen Schutz beibehalten werden. Sie dürfen dieses Dokument nicht in irgendeiner Weise abändern, noch dürfen Sie dieses Dokument für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen.
Mit der Verwendung dieses Dokuments erkennen Sie die Nutzungsbedingungen an.

Terms of use:
This document is made available under Deposit Licence (No Redistribution - no modifications). We grant a non-exclusive, non-transferable, individual and limited right to using this document. This document is solely intended for your personal, non-commercial use. All of the copies of this documents must retain all copyright information and other information regarding legal protection. You are not allowed to alter this document in any way, to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public.
By using this particular document, you accept the above-stated conditions of use.

gesis
Leibniz-Institut
für Sozialwissenschaften

Mitglied der
Leibniz-Gemeinschaft

V

Vierter Vortrag

Prof. Dilley

Economic Policy and the Monopoly Problem

Mr. Chairman, Ladies and Gentlemen:

May I say that I regard your kind invitation to me to deliver one of the lectures at this convention as a distinct honor? It is another chapter in my very happy acquaintance with German university students and faculty members. I am speaking to you to-day as one student of the social and economic problems of our time to other students of those problems. I do not speak for the United States Government or for the United States Military Government or for any division thereof. I am speaking strictly as an individual citizen of the United States and for myself alone.

Recently I had the privilege of giving a series of lectures on economic problems and policy in the International Summer School at the University of Marburg. It was one of the happiest and most enlightening experiences of my life. There I met students and faculty members from many of your great German universities. I was greatly impressed by the quality of the students with whom I came in contact. In many years of college and university teaching experience I have never met students who as a group were more intelligent, who demonstrated more initiative and leadership ability or who were so genuinely eager to seize every opportunity to learn. In my discussions with the students, however, I discovered that they had misconceptions as to the purposes of the United States occupation in its zone of Germany. I regard an understanding of some of these points as being of such paramount importance that with your permission I propose

to comment briefly on some of the more outstanding of those misconceptions before taking up my prepared lecture.

Comment on ideas encountered at Marburg

I found that many of the students and faculty members whom I met in Marburg were aware only of the negative aspects of the program of the Military Government, such as denazification, reparations, demilitarization and decartelization. They had the idea that there was very little of a positive nature on the program, that the aims of the occupation were to prevent the social and economic recovery of Germany. They could see in the level-of-industry program for example, only a scheme for impoverishing their country. As a matter of fact, the level-of-industry program is not in any sense designed to reduce Germany to a pastoral state. On the contrary, it is my belief that one purpose of the level-of-industry program is just the opposite. In addition to eliminating war potential it was designed to make sure that other programs, such as reparations do not cut too deeply into the economy of Germany. It was established to make certain that sufficient industry would be left in Germany to provide the German people with a standard of living equal to the average of the rest of Europe. The principle is that below or beyond this point reparations, removals must not go. I found that the positive side of Military Government activities had not been brought to the attention of the students, that they knew little of the efforts of such agencies as the Industry Branch, the Food and Agriculture Branch, the Export-Import Branch and the Transportation Division to help in restoring the German economy to a tolerable living standard.

Those agencies are staffed with the ablest experts in their various fields who were obtainable in the United States. The activities of those agencies are by no means negative. On the contrary their functions are quite positive. They are bending every effort to help revive the shattered German economic life. It must be remembered that only a little more than a year ago Germany was still a battle ground. Military Government has to start from scratch, these agencies had to be organized and personnel had to be recruited before even a beginning could be made on the formidable task of assisting the revival of the German economic

system, an economy which had been drained by six years of total war and battered to a pulp by air raids and invading armies. The positive accomplishments of Military Government in the United States zone are by no means negligible.

Time does not permit extensive elaboration of this point but I will cite just a few of the accomplishments in food and agriculture. In July and August 1946, imports of wheat and flour from the United States and paid for by the American tax-payer, provided ¾ of the bread ration in the zone. 6½ million dollars worth of seed, 90 percent of the seed requirements for this year's crop, was imported from the United States in the last year; as was binder twine, cotton for sacking grain, calcium arsenic for spraying potatoes, and nitrogen for fertilizer. The zone produced only 950 calories of food per person in 1945—46; all over that amount was supplied by the United States. Top American experts in agronomy, nutrition, seeds, dairying, etc., have been put to work in Germany. The provision to the German people of food and health items alone is costing the United States tax-payers about 200.000.000 dollars per year. It is costing the American people just about one million dollars per month to supply the German economy only with essential petroleum products. 60.000 bales of American cotton have recently been imported to supply raw material for the German textile industry. Part of the textiles made from the cotton will be sold abroad to pay for the raw cotton. The remainder of the finished textile products will be used to supply German civilian needs.

And so the record goes. Agencies of United States Military Government are striving and with considerable success to provide food and medical supplies, to get the wheels of German industry turning, to reconstruct the transportation system, to produce exportable merchandise with which to purchase abroad the critically needed raw materials required by the German economy, and to increase the production of German agriculture so that the German economic system may soon be able to support the country and so that German workers may soon again have work. It is unrealistic to suppose that we would be following any other course. The economic welfare of all Europe, not to mention humanitarian considerations, requires a reasonable reconstruction of peaceful German industries. Only as that reconstruction is achieved can the terrific cost of the occupation to the American tax-payer be

reduced. I deem it of the utmost importance that these matters be brought to the attention of German students and teachers in their true light. For it is only with the enlightened assistance and cooperation of the German people that our mutual interests can be served. Only thus can there be achieved a better life for the people of Germany.

A few days ago a German economist, in talking about the necessity of reviving German industry, said to me, »Just for one illustration, take the light bulb situation. The German people cannot buy light bulbs. They are needed desperately. But the German light bulb industry cannot produce them because you (the occupying powers) won't let us import wolfram and wolfram is essential to the manufacture of light bulbs. We Germans cannot understand such a policy. Even our peaceful industries, which could be operating and the products of which we need desperately, are not allowed to operate.« I replied that he must be mistaken, that I knew there was a desperate shortage of light bulbs and that it was inconceivable to me that we were not doing everything possible to get the industry back into production. I was sure he must be mistaken. When I got back to Berlin I investigated and found that the bottleneck is not wolfram at all (There is a three or four year supply on hand) but the machinery and plant for processing it. About 70% of the pre-war capacity has been destroyed or removed. The US zone has only 5% of that pre-war capacity and only 60% of the present output can be used for light bulbs because 40% must be used for radio tubes. In spite of all that, I found that no less than 408.200 electric light bulbs were produced last month (August) in the United States Zone. Between April and August 1946 production increased from 327,000 per month to 408,200 and the goal for 1949 calls for the production of 25 million light bulbs in the US Zone. My friend was simply mistaken; he had simply come upon some mis-information and accepted it without investigation. I cite this case to suggest that when a professional economist of high standing can be misled like that, no one should be surprised that the typical German man in the street is confused about these things.

As a member of the Decartelization Branch, I was particularly concerned with the impressions of the students as to the aims and objectives of the decartelization program. They had the idea that the decartelization program had been devised by American

monopolists, big financiers and industrialists in the United States who want to protect their monopolies, and that the Decartelization Branch is here to safeguard the interests of these forces; that its function is so to cripple the productive efficiency of German industry that Germany will never again be able to offer the American concerns any effective competition in the markets of the world. They believed that a program designed to eliminate domestic cartels in Germany and German participation in international cartels, and to break up such gigantic concentrations of economic power as the I. G. Farben combine, must inevitably disastrously cripple the production of goods and services in Germany.

Nothing could be further from the truth. That analysis rests on a set of false assumptions. The first is that the bigger a combination or enterprise becomes, the more efficient it will be technologically. That is a false assumption. It overlooks the fact that in the production of goods and services there is what we call in economics the optimum size firm and that when a firm goes beyond the optimum size, technological efficiency goes down and not up.

It also overlooks the fact that the deconcentration program is aimed primarily not at breaking up plants but at an examination and revision of the corporate structure of business organisations. If one gigantic corporation which now owns 50 efficient plants is broken up and in its place are substituted 50 medium sized corporations, each owning one plant, it does not necessarily follow that the technological efficiency of those 50 plants will be reduced thereby. That analysis also overlooks the distinction between b u s i n e s s efficiency, the test of which is profitability, and e c o n o m i c efficiency, the test of which is the availability to consumers of high quality goods and services at the lowest possible prices. After such a dissolution of gigantic corporations and the substitution therefore of medium-sized efficient firms, e c o n o m i c efficiency (as contrasted with b u s i n e s s efficiency) may very well go up instead of down, because thereafter the German consumer should pay relatively low competitive prices for the products of industry, rather than high monopoly prices.

The idea that the Decartelization Branch is merely the tool of big monopolists, financiers and industrialists in the United States is little short of laughable. But first let me point out that all big financiers and industrialists are notmonopolists. The vast

majority of them obey the anti-monopoly laws of the U.S. As to the others, it would be very surprising indeed if those who are bent on establishing monopoly control had any more fondness for the work of the Decartelization Branch in Germany than those same interests have for the work of the Antitrust Division of the United States Department of Justice. The function of the Antitrust Division is the protection of honest competitive business firms from just such monopolists, to investigate and police the activities of just those interests constantly and to prosecute them when evidence is found that they have been guilty of the very sort of business practices which the Decartelization Branch is designed to eliminate from the German economy. World monopolists must know perfectly well that if in the future, participation of German firms in international cartels is prevented, then instead of not having to compete with German industry in the markets of the world they may be faced as never before with very intense competition in the world markets from German producers. Heretofore, they have often been able very largely to eliminate such competition by joining with the German producers of their products in international cartel agreements, the major purpose of which was to eliminate their having to compete with German producers.

I found also that some students had the idea that the Decartelization program was designed to prevent socialism in Germany. Just a word about that. While I cannot speak for the Government of the United States, I do have some ideas as to the aims and purposes of our government in its occupation of Germany. It is my belief, speaking as an individual, that the United States Government has no desire whatever to prevent the socialization of all or any part of the German economy, if eventually the German people, speaking through a genuinely democratic German Government, really want to establish that kind of a society. As to the idea that the only technologically efficient economy for Germany is one which is largely dominated by such gigantic concentrations of economic power as the I. G. Farbenindustrie, an economy, every phase of which is strictly controlled by a system of government-sponsored cartels, it is our view that such a notion is equally fallacious. I shall develop this proposition somewhat in my prepared lecture, to which I turn now.

Background of the American attitude toward Monopoly

For 200 years most of the peoples of the Western World have sought ever more and more freedom. On the political side this quest found its expression in the American revolution, the French Revolution and other outbreaks by which the tyranny of political despots was thrown off and governments of the people and by the people were established.

On the economic side these revolutionary movements were no less significant. They were revolts against the mercantilist system which had prevailed for hundreds of years and under which the political state had imposed the most minute regulation upon the economic relationships of men. By these revolutions the grip of the political state on the economic activities of men was broken. The American Revolution was, in its economic aspects, a revolt against the whole philosophy of mercantilism. The mercantilist system collapsed because it had outlived its usefulness and because a new politico-economic philosophy, the philosophy of democratic laissez-faire capitalism had seized the minds and fired the imaginations of men nearly everywhere in the Western World.

Following the American Revolution the people of the United States wrote a new constitution. After 175 years under the domination of the mercantilist government of England our people sought economic freedom as well as political freedom. Hence that constitution was an economic document as well as a political document. In its economic aspects that constitution as originally written and interpreted was nothing less than a charter for democratic laissez-faire capitalism. The five paramount characteristics of laissez-faire capitalism are: (1) free private enterprise, (2) free private individual initiative, (3) free competition, (4) free private profit motive, and (5) free private property. The term »free« as used here means relative freedom of the individual from interference by the political state.

Theory of democratic free enterprise

Traditionally then, the people of the United States have believed that if interference by the political state in the economic

affairs of men was reduced to mere reasonable regulation, and that if beyond that, all men were left free to exercise their own individual initiative, accumulate their own private property, invest their savings in any kind of enterprise they saw fit, in competition with all other men, and allowed to pocket their own private profits and take their chances on their own private losses, we would achieve a better society than any ever yet achieved in which all such activities were minutely controlled by the sovereign. They believed that in such a society a maximum of goods would be produced at the lowest possible cost, prices would be lower, wages would be higher, inventive genius would be stimulated, economic progress would be maximized, that the highest possible general standard of living would be achieved for all the people, and, most important of all, that men would enjoy such freedom as mankind had never known on the planet before in all the ages.

It was a magnificent dream — a noble experiment in human relationships. And it worked. It worked amazingly well for about 100 years. Then gradually something went wrong. The founding fathers who wrote the constitution had never dreamed of such a thing as a 5.000.000.000 dollar corporation. They had never foreseen or even imagined such a thing as a modern railroad company, not to mention a present day super-holding company. And there was no place in their scheme of things for the super-holding company, the 5.000.000.000 dollar corporation or for corporations even one tenth that large. But the 500.000.000 dollar corporations, the super-holding companies and finally the 5.000.000.000 dollar corporation appeared upon the scene.

The first repercussions were felt in the rumblings of the Granger Movement (farmers' organizations in the middle-western States) in the 1870's and 80's and the attempts of the individual states to deal with these new monsters. And when these attempts failed the Federal Government was forced to step into the picture with the Sherman Interstate Commerce Law of 1887 and three years later with the Sherman Anti-Trust Law of 1890. We had come to the end of an era, the era of government non-intervention in economic affairs. The era of laissez-faire capitalism in the United States had ended and we had embarked upon a new era of regulated capitalism.

In the United States either we could not or would not prevent giganticism in industry and finance with its inevitable overtones

of monopoly abuse. So, following 1890 we were dedicated to the policy of policing it. We would prevent and eliminate combinations in restraint of trade, collusion, price fixing and other monopolistic practices by means of antitrust suits.

In international trade the people of the United States have believed in freedom of the seas and the »open-door« policy, so that all men of whatever race or creed or nation would be free tu buy and sell goods in the markets of the world whenever and wherever they wished, in competition with all other men. And they have believed in those principles in international relations for the same reasons as they believed in free competition and free private enterprise at home.

Beginning of the Cartel economy in Germany

In dealing with the problems of concentrated economic power and the rise of monopolies, Germany took a very different course from that followed in the U.S. The cartel movement took firm root in Germany following the financial crisis of 1873, when the clamor for a „stabilized price level" on the part of the big industrialists became a din. A cartel may be defined as a contractual association of legally independent enterprises in the same field or related fields of business activity, formed for the purpose of influencing the market by means of regulating competition; it is virtually always some sort of combination in restraint of trade. The German law favored rather than hampered combinations in restraint of trade and the German business mentality was accustomed to discipline and subordination. The adoption of high protective tariff duties in 1879 completed the picture, for it gave the cartels the final tool for regulating domestic prices. Germany had become a confirmed cartel country. A cartel state of mind had replaced a free enterprise mentality[1]).

Theory of the Cartel Economy

It would be easy to write off the theory of a cartelized economy from the individual's viewpoint by simply calling it the product

[1]) Temporary National Economic Committee, U. S. Senate Committee Monograph No. 40, Regulation of Economic Activities in Foreign Countries, Washington, U. S. Government Printing Office, 1941, p. 36.

of naked greed, and lust for power on the part of industrial giants. But the answer is not so simple as that. There is a considerable body of intelligent opinion which holds that unrestrained competition is not intrinsically good, that modern industrial society has reached such an advance and complicated stage that considerable stability in prices and markets is required if periodic disruption and chaos is to be averted. It is believed that the grave evils of bankruptcy, liquidation, unemployment and suffering will result unless such stability is achieved.

From the standpoint of society it is argued by some people that free enterprise capitalism has outlived its usefulness, that the state, by fostering cartels or otherwise, must stabilize economic life by control of foreign exchanges, imports and exports, commodity prices, wages, interest, rents, profits and hours of work. This philosophy has been called »Twentieth Century mercantilism« and it is in direct conflict with the traditional American ideal of free private enterprise.

Development between the wars

Someone has observed that the emergence of Germany in the 1930's as a menace to world peace with such terrifying speed was attributable to three »C's« — coal, chemists and cartels. As a result of the Versailles Treaty, German industry was forced to rely increasingly upon different and more costly raw materials. To a great extent it became an industry of synthetics. Other nations controlled nitrate of soda, oil deposits, natural rubber; so the German chemists made synthetic nitrate of soda, synthetic oil from coal and synthetic rubber from oil. Germany became the world's largest exporter of chemicals, dyes, drugs, fertilizers and photographic materials. German synthetics, such as synthetic gasoline, synthetic resin, synthetic leather and artificial silk, appeared on the market.

The »rationalization movement«, the use of scientific, technical, and organizational methods to increase production, swept every phase of German industrial and business life, immediately after the first World War. As a result German industry became the most completely integrated, from raw material to finished product, in the world. Methods and products were standardized,

and the productivity of both labor and capital was vastly increased by improved methods of production.

Very early after the First World War, as a phase of »rationalization«, gigantic trusts were formed. Such excessive concentration of economic power is well illustrated by the case of Hugo Stinnes, who formed the enormous Siemens-Rhein-Elbe-Schuckert-Union. At the time of his death in 1924, Stinnes is reported to have had an interest in some 1400 business enterprises and to have controlled about one fifth of Germany's total industrial production. Among his holdings, to name only a few, were forests, hotels, lands, oil fields, paper mills, newspapers, summer resorts, banks, coal mines, electrical establishments, iron mines, aluminium works, copper mines etc.[1]).

Under German laws, contracts among producers to fix prices, limit output, apportion territories or pool profits were legal and binding and no firm could withdraw from such an agreement without permission of the Cartel Court. It is not surprising that in such a climate, cartelization of German industry went forward by leaps and bounds in the decade of the twenties. The international cartel movement kept pace. Largely under the leadership of the German industrialists a substantial part of the trade of the world came to be controlled by international cartels. By 1939, the U.S. Department of Justice listed 179 such agreements, 109 of which were participated in by American firms. The Department had started proceedings against 37 of them dealing in aircraft accessories and instruments, military optical instruments, chemicals (including synthetic rubber, plastics, dyestuffs, nitrates, and explosives), pharmaceuticals, photographic materials, light bulbs, fluorescent lighting equipment, magnesium, molybdenum, titanium, and tungsten carbide.

The most publicized of the international cartels have been those concerning foodstuffs, such as coffee, sugar, tea and meat. In raw materials and semi-finished goods, there are cartels for pulp, petroleum, rubber, scrap-iron, fertilizers, steel, tin, copper beryllium, magnesium, aluminium, and probably many others. A few of the cartelized manufactured products have been paper, pharmaceuticals, chemicals, dyestuffs, explosives, plastics, electrical machinery and surgical instruments.

[1]) Walter C. Langsom, The World since 1914, New York, The Macmillan Company, 4th ed., 1936, p. 476.

One of the most common types of international cartels is the agreement as to patents and processes. In a study of a sample of 333 such contracts, it was found that 38 percent of the contracts contained restrictions or prohibitions of exports from the United States and 43 percent contained restrictions of the fields of use. In about half of the agreements there were provisions for cross-licensing and cross-assignments of future patents. Frequently they stated specifically that the division of territory was to be continued by future patent agreements. About 75 percent of the contracts studied provided for division of markets.

Economic effects of cartels

Whether a division of markets along national boundaries by the use of patent agreements is legal or illegal under the laws of the United States is beside the point, that such a division of markets effectively reduces competition and promotes the monopolistic position of the producers in the reserved areas is beyond question.

The anti-social character of cartels from the economic point of view is self-evident from their very definition. By definition they are agreements designed to reduce competition by one or more of several devices. Such reduction of competition ordinarily means higher prices, reduced consumption, and less employment for workers. Although the apologists for cartels usually talk in terms of »preventing cut-throat competition« or »stabilization of fair prices« the truth of the matter is that cartel agreements are formed for the purpose of establishing higher prices than would prevail under conditions of likely competition in the industry. It is an economic truism that consumption will ordinarily be lower if prices are higher. However, it is not only the consumers who suffer. Lower consumption implies lower production, which in turn means lower employment. Thus the unemployed workers join the exploited consumers as victims of the cartel system.

Not only is employment opportunity reduced in the cartelized industry but, at times, it is reduced in other industries as well. Since cartel agreements frequently prevent expansion of plant capacity and the entry of new-comers in the industry, investment and employment opportunity in the building construction, capital equipment, and service industries may be curtailed. When cartels

maintain fixed quotas for the exportation of the product there is obviously little inducement to expand facilities to increase production for export. The result again is reduced investment, reduced employment and lower national income. International cartels also constitute an artificial barrier to international trade and thus help deprive the people of the world of the advantages and economies of international division of labor.

In defense of the cartel system it is often observed that cartel members, being protected from the rigors of competition, are free to conduct expensive research experimentation. Thus it is alleged, economic progress is advanced and new and improved techniques of production are developed and applied. There is considerable evidence to show that just the opposite is more often the result of cartel activity. Since when did a monopolist have to be efficient or up to date? One of a great number of vigorous competitors must either be a reasonably efficient producer or perish. The story of the »burial« of new techniques and processes is a familiar one to all students of these problems. Unless there is competition in the industry, a new process which will render obsolete millions of dollars worth of equipment is not likely to be introduced promptly and perhaps not for many years.

It is often contended that there are good cartels and bad cartels and that all cartels should not be condemned because of the transgressions of the few. But cartels by definition are designed to restrict production. Is restriction of production ever defensible from the social point of view? To defend restrictions of production it would be necessary to prove that it is beneficial not only to the individual producers involved but that it is also advantageous for the economy of the country as a whole. Since such proof is all but impossible, the good cartel argument breaks down upon examination.

The criterion of a good cartel is said to be that it stabilizes prices in the industry at a point no higher than the average of the fluctuating prices which would have existed had no cartel been operating. Somehow »price stabilization« has a reassuring sound. The literature on cartels abounds with the phrase. On the other hand »price rigidity« or »inflexibility of prices«, which mean the same thing, sound bad and we rarely see them used. But any such test lacks validity because it is not susceptible of proof. No one knows what the average of fluctuating prices would have been

over a period during which the price did not in fact fluctuate. The best evidence tends to indicate one thing, however, and that is that »stabilized prices« usually err on the side of safety; they usually turn out to be relatively high prices.

This whole assumption of the desirability of stable prices is suspect. Politicians, lawyers, business men, industrial engineers, and occasionally some misguided economists, who advocate desirability of cartel activity to avert »ruinous price competition« or to prevent »selling below cost«, appear to assume that a corporation has some sort of »right« to a price which covers its full cost of production at all times and in all places and under all circumstances. The proposition is fallacious. Such a price in an over-expanded industry would have to be high enough to permit replacement of the excess plant capacity. On its face such a price is too high, by definition, from the economic point of view.

The advocates of stabilized prices would have to prove that it is good for the economy of the country as a whole to have some prices stabilized while others cannot be. The contrary is the truth. Stable prices in one part of the economy only amplify price fluctuations in the part where prices are flexible. The result is that during the depression phase of the business cycle there is unnecessarily violent price fluctuation and disaster for the competitive side of the economy with injury to the society as a whole. Furthermore, stability of prices can only be had at the cost of instability of production and thus of employment. During prosperity in an industry in which prices are »stabilized«, production soars; during depression it is drastically curtailed, plants close down and workers are unemployed. The economic burden of the depression is thus shifted from the backs of the business men and corporation stockholders, who pocket the profits and are therefore supposed to assume the risk of business, to the consumers in the form of high prices, to workers in the form of unemployment and to taxpayers who must foot the relief bills. Such price stabilization mitigates the cost of cyclical fluctuations for the few at the expense of the many.

Sometimes it is urged that temporary cartel agreements are socially desirable in the case of badly mal-adjusted, over-expanded industries. Such arrangements, it is said, will give the industry time to bring about »orderly adjustment« of its production capacity and avert a period of »ruinous cut-throat price competition.«

In the first place, no case has ever been brought to light in which a cartel agreement was used to achieve that purpose and then promptly abandoned. Secondly, even in cases where cartels have been used to bring about some »rationalization« by closing down »inefficient« plants and turning the production over to the more efficient plants, the public has had to pay the bill. The owners of the withdrawn capacity were reimbursed by premiums or bonuses. These in turn were paid for, of course, by consumers in the form of artificially enhanced prices for the products, by workers in the form of unemployment caused by the reduced consumption of goods, and by the taxpayers.

But even such technical »rationalization« is not common. Just the opposite frequently happens. The result is often »irrationalization«. By virtue of the cartel agreement the inefficient producers can remain in operation while the really low-cost producers are forced to curtail production. Instead of the mal-adjustment being corrected it may be aggravated. Because of the production quotas governed by the cartel, there is a tendency at times for the members to expand production facilities in anticipation of the next bargaining over quotas, thus increasing still more the excess production capacity in the industry. They know that the greater their standing by capacity the better are their chances for getting a higher quota. So instead of »orderly readjustment«, the result at times may be increased mal-adjustment and still more »justification« for the continuation of artificial restrictions on production to avert »ruinous price competition.«

The »mal-adjusted« industry argument for »temporary« cartels is reminiscent of the »infant industry« argument for »temporary« protective tariffs and has even less validity. The »infant« industries never seem to reach adulthood. When the old argument for continuation of tariff protection is worn thread-bare, new ones are put forward and the tariffs remain. Somehow the »mal-adjusted« industry never seems to achieve that »orderly adjustment« which is to be accompanied by the dissolution of the cartel arrangements and the cartels remain with us.

Today it is fashionable to argue that all is well if only cartels are »government regulated and supervised«. The following quotation, however, summarizes the views of one prominent student of these problems. »Government-supervised cartels are a greater threat to a democratic, competitive society than uncontrolled car-

tels. An uncontrolled cartel is perpetually exposed to the economic thrusts of seceders, outsiders, and newcomers, and to the political thrusts of a suspicious public and a critical government. Government control, on the other hand, is apt to protect the cartel against attacks. Government control is apt to make the cartel more bureaucratic in its operations and more autocratic in its relations with minority groups and customers. Government control sanctifies the cartel. Conspiracy becomes »regulation«, unlawful restraint becomes government-approved »order«, restriction becomes »planning«. If a choice must be made between government-supervised cartels and »free« cartels, the latter are to be preferred for the precariousness of their structure and for the economical and political insecurity of their existence. But there are, in fact, three possibilities: government-controlled cartels, uncontrolled cartels, and no cartels at all«[1]). It is the view of the vast majority of American economists that the best solution is no cartels at all.

The efficiency and productivity of democratic free enterprise

In closing let me repeat that we reject as wholly without validity the assumption that the only technologically efficient economy possible in Germany is one characterized by gigantic monopolistic concentrations of economic power such as I. G. Farben and »controlled« by a network of government sanctioned cartel agreements. We sincerely believe not only in the desirability but in the efficiency of a democratic free-enterprise society. We have seen what it can do in the United States and we believe that it might have done still better had it been even more democratic and had there been fewer restrictions on free private enterprise.

It was a democratic, free private enterprise philosophy that built and established the economic system of the United States, not a cartel philosophy or a socialist philosophy or any other sort of collectivist philosophy. Has any other economic system ever provided the people of a country as a whole with such a high standard of living or with so much freedom? What else should

[1]) Fritz Machlup, A Cartel Policy for The United Nations (Corwin W. Edwards, ed.) New York, Columbia University Press, 1945, pp. 23—24.

an economic system do? We contend that when it has done that, it has performed well the functions of an economic system. Do you know any society in which men have surrendered their economic freedom and succeeded in retaining their personal and political freedom? We do not, and until we do believe the people of our country will elect to keep all of their freedom.

No society on earth ever approached the miracle of production achieved by that of the United States in the past five years. It supplied our armed forces and to a considerable extent those of our Allies. It had a very great deal to do with winning the war. It produced the atomic bomb. Somehow we managed pretty well without an economic system tied hand and foot by cartel agreements.

The only production figures, of the type I was seeking to be found in our library happen to be on the United States Navy. I am presenting them only to give you some idea of the magnitude of that miracle of production (achieved without a cartel system). On July 1, 1940 the Congress of the United States authorized the building of a two-ocean Navy and on that date our Navy possessed 4,500 vessels of all types. On Juli 1, 1945, just five years later our Navy had 91,209 vessels of all types, not counting ships lost in the sneak Japanese attack on Pearl Harbor (while we were at peace, by the way) or later sinkings. We had actually built 110.000 vessels. During those five years we built 1,265 major combat ships including ten battle ships, 27 large aircraft carriers, 110 escort aircraft carriers and 45 cruisers. Installed fire power had been increased from 411 tons of projectiles per 15 seconds to 4,500 tons per 15 seconds. On that date 11,000 of our Navy planes were deployed in the Pacific. The United States Navy roamed the seas of the world wherever it chose and outfought everything that came within range. The great distances of the Pacific had been overcome by the use of gigantic floating drydocks and supply depots which repaired, refueled and replenished whole fleets with hardly an interruption of operations against the enemy. That represents a production achievement without parallel in history. During the same period we furnished our Allies with 42 billion dollars worth of lend-lease supplies and equipment and built an army, an air force and an atomic bomb.

But, you say, »Did you accomplish all that with free private enterprise, or did you not in fact set aside your free private enter-

prise system and turn to a system of state capitalism in which everything was controlled by your government?« The answer is, yes, we did temporarily set aside free private enterprise, and for the duration of the emergency we turned to a system of government control. That is because time was of the essence and because the goals of our society were changed over-night. When your house is on fire you smash windows and flood the premises with water, not because that makes a better house but only in order to fight a still greater evil, where time is of the essence. You know perfectly well that smashing windows and flooding the place with water did not build the house in the first place and that it is now only a necessary evil required to meet a temporary emergency. Likewise we know that it was not a government controlled economy that built the industrial, social and political structure that made possible our great war effort. It was 150 years of democratic, free enterprise philosophy which established the basic industries, the transportation, the power, the technical knowledge, the mechanical skill, the research institutions, the resourcefulness, the daring, and the managerial genius which stood ready for instant use when our country was suddenly confronted with a life-or-death struggle.

But perhaps of equal importance is the fact that overnight, within 24 hours on December 7, 1941 the goals of our society changed completely. Very suddenly one set of goals was abandoned and another very different set took its place. On and before December 7, 1941, the goal of our economic system was the peaceful one of promoting human welfare, the goal of producing a high output of goods and services, and their wide distribution to our population of 140 million people at the lowest possible prices while at the same time allowing our people maximum freedom of choice and action and a decent amount of rest and leisure.

Overnight, those goals went out of the window and on December 8, 1941, the goal of our economic system was no longer human welfare; it had suddenly become the prosecution or total war. Our objective was to crush German Nazism and Japanese Imperialism, so thoroughly that neither would ever again be able to loose a reign of murder and terror upon its neighbors or for that matter upon its own people. Virtually all considerations of good food, good clothes, good housing, rest, entertainment, cultural expression, recreation, leisure and most important of all for

our purposes here today, considerations of economical production, took a secondary place.

Considerations of efficiency, considerations of economy in production and distribution of goods were suddenly of little importance. We turned immediately from the economically efficient processes of democratic free private enterprise to the relatively less economically efficientsystem of rigid government control and regulation of virtually the entire economy. Suppose for example that a gigantic propeller on an aircraft carrier had been shot away in the Pacific and a replacement was desperately needed at the earliest possible moment, and that it was found that a plant at Youngstown, Ohio, could make and deliver it 30 days quicker than any other. Nobody asked or cared how much it would cost; nobody lost any sleep over the fact that it was really economically unsound to produce such an item in Ohio; no one wasted any time demonstrating that efficiency in production required that the propeller be manufactured in Pittsburgh, Pa. The only thing that mattered was the fact that the Youngstown plant could get it to the ship 39 days sooner than any other.

Our people tolerated such regimentation and restraint and economic inefficiency only because of the war emergency. Immediately after the end of the war with Japan we began the painful process of de-controlling. The people of the U. S. were so sick of such a system that the clamor for removal of controls reached a dangerous pitch. Our people wanted their freedom and efficiency back with all possible speed. And there was serious danger that certain controls, such as price control for example, might be removed too soon.

Now, in closing, let me suggest that the outlook is not all black for the people of Germany. We are convinced that you can have a highly efficient system of competitive free private enterprise which will surpass in economy of production and particularly in economic efficiency any system characterized by gigantic monopolies and bound hand and foot by the shackles of cartels. I have observed that economic systems have amazing recuperative powers, that they recover with astonishing speed from disasters such as floods, earth quakes, tidal waves and wars. While I am not a prophet, I will venture to predict that within five years you will not be able to recognize the German economy as having any similarity to the one you see here today — — that

your society will again be producing enormous quantities of peacetime consumer goods and services, that the standard of living of the German people will be much closer to normal, and that you will know a reasonably good life in Germany.

Prof. Dr. von Wiese dankt dem Redner gleichfalls in englischer Sprache und versichert ihm, daß die Zuhörer seine Ausführungen in guter Erinnerung behalten werden.