MONOPOLY AND BIG BUSINESS

By
IRVING LIPKOWITZ

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MONOPOLY AND BIG BUSINESS

By Irving Lipkowitz

For over a decade we have been suffering from the economic malady called Depression. The worst stages seem to be over, but the disease lingers and continues to gnaw at our physical and spiritual resources, constantly threatening to become virulent again. Despite all that we have done to regain our health, we are still far from recovery, nor have we rid ourselves of the virus which is at the source of our troubles.

Wait patiently and hope for a "natural" recovery, we cannot. The long siege has weakened us so much that we cannot hold out any great length of time. The year 1929 was far from a prosperous year for great numbers, yet even with that year as a standard, it has been estimated that our depression losses in wages, salaries and farmers' income totaled $157 billion for the nine year period, 1930-1938.[1] These astronomical statistics are the barest indication of the total loss. We cannot compute the tremendous spiritual costs, the demoralization of human lives and hopes, of plans and ideals. The longer we delay fundamental rehabilitation of our economic order, the more exhausted and impoverished we shall be and the more likely we shall be to swallow the barbaric cure-alls offered by some all-American prototype of Hitler.

Our long drawn-out illness is not of simple or recent origin. We are not in the position of a man in perfect health who was knocked down by an auto truck in 1929 and who hadn't as yet fully regained his health. Long before 1929 we were sick and getting progressively worse. That year merely marked the beginning of our most serious collapse.

One of the most basic and malignant of our ailments is the private concentration of economic power. More than half a century ago we became aware of the threat of such concentration to our well-being, and began an attack on private monopoly. The widespread changes in our economic structure these fifty years has robbed the term monopoly of its precise meaning. Monopoly, as commonly used today, is synonymous with "Big Business" and therefore industries so labeled are not necessarily under the complete domination of a lone giant corporation.

Though monopoly has become a term surcharged with emotional connotations and often exploited as a catch-word by politicians, it nevertheless symbolizes the problem of private concentration and the absence of economic democracy. The increasing control of industry by a small group of private corporations, coupled with the introduction of mass production, has made our economic machine less and less flexible, has resulted in rigid prices, drastic reductions in production and sharp increases in unemployment. It has meant a cumulative waste of our material and labor resources and of the benefits of modern technology. Political democracy has thus been seriously endangered, because it cannot thrive in an atmosphree of economic oligarchy.

As time goes on the costs of doing nothing about this situation mount and the maladjustments become more pronounced. We can choose to let things drift, which may mean economic chaos and the end of democracy in a short time. Or we can face the tasks, appraise our problem and act with courage and speed to revitalize our economy. The foreign situation makes it increasingly imperative that we take such action as might make it possible the better to withstand the inevitable stress and strain of the European war on our institutions, economic as well as political. For all these reasons it is of importance to us here and now to evaluate the problem of concentration, to find out in what sectors of industry it prevails, what its effects are on the general economy and what should be done about it now and in the immediate future.

I. CONCENTRATION AND ITS EFFECTS

Big Business — Problem or Bogey

IS BIG BUSINESS a Frankensteinian problem-child of our times or a bogey conjured up by economic alarmists? The few hundred corporations controlling more than 50 per cent of all corporate wealth and America's 60 families are familiar phrases to all. Reports of the Internal Revenue Department indicate an indisputable concentration of income in the hands of the few.

As a counter-offensive, those who contend that there is no monopoly or big business problem cite the fact that there are millions of security holders and that ownership of the big American corporations is more widely diffused than ever before in the nation's history. Insurance companies and savings banks are among the largest holders of corporate securities in the nation, with the result that the millions of insurance policy holders and the millions who have savings bank accounts are really corporate stockholders on a mass basis.[2] How can there be any talk of "concentration of wealth" and the evils arising therefrom? So runs their argument.

An adroit use of stockholder statistics is the sole prop supporting the assertion that there is no real question of business concentration. Technically speaking there probably are more stockholders now than years ago. But what does that really mean? Let us take a concrete case: The American Telephone and Telegraph Company. In 1935, this company had 659,000 stockholders, scattered all over the world.[3] Whatever significance stockholder statistics have is based on the legal powers of the stockholder to elect a corporation's executives. Theoretically, the board of directors are the employees of the stockholders. But picture an A.T. & T. meeting with 659,000 stockholders attending from all parts of the world. Any decision by this body would require some organization of opinion among the 659,000 in the same way that voters of the state are organized in political parties. For that decision to be intelligent, the stockholders would have to take the time necessary to become acquainted, in a general way, with the business and problems of the A.T. T. and the relative merits of those seeking directorships. Among the stockholders are not only the well-known widows and orphans but also a great number of shopkeepers, housewives, teachers, laborers, and others who put their savings in this stock for investment purposes and without any desire to help run the A. T. & T.

Under these circumstances, the voting power of the stockholder of the modern corporation has shrivelled up from disuse. The proxy system of voting is a routine formality for electing the choice of the management, not for expressing the will of the stockholder, because the plain truth is that the average stockholder has no will to choose the executives who run "his" corporation. He knows it isn't his corporation and he doesn't waste time going through the empty gesture of voting.

The flimsiness of the argument that control is widely distributed among the tens of thousands of stockholders of the large companies becomes all the more apparent when we realize that stockholders in private corporations do not vote as do shareholders of consumer cooperatives, who possess one vote per shareholder regardless of the number of shares held. The stockholder statistics for private corporations are without meaning unless they also show shares per stockholder. Going back to the A. T. & T., we find that, of the 659,000 stockholders in 1935, the 43 largest held 5.2 per cent, the 700 largest held 16.6 per cent, while, at the bottom of the group, 242,512 stockholders held only 3.8 per cent of the stock.[4] Because the stockholder is not willing to be active and, even if he is willing, cannot be effective, his legalistic position of owner is utterly irrelevant in any study of the concentration of *control* of corporate wealth and income.

The insurance policy-holders and savings banks depositors are even less likely to be in a position to influence corporate policies than is the stockholder. First, the exertion of such influence would require that these policy-holders and depositors determine the management of their institutions and, secondly, that they kept an ever-alert eye on the investment policies of their officers. In practice, the policy-holders and savings bank depositors are really customers of their institutions, with little or no awareness of the theoretical status of legal ownership.

In 1937, the policy-holders of ten large insurance companies could have cast 48,238,178 votes, but only 1.5 per cent of that amount was actually cast.[5] The Temporary National Economic Committee has inquired into the voting machinery of the mutual life insurance companies. At least the largest company, accounting for more than half of the 1937 vote, had the "votes" cast by its agents, making a farce of the policy holder's voting power.

The wide gulf between stock ownership and corporate control can also be viewed from the opposite shores, where management is operating the large corporation. To what extent is the director a director because he is a large stockholder? A recent survey of the stock held by officers of 155 large corporations in their own companies in 1935 shows that in only 2 of the companies did the officers and directors combined hold 50 per cent or more of the voting stock outstanding, while in 128 companies they held less than 10 per cent. The managements of these 155 giants held, on the average, only 1.74 per cent of their respective companies' outstanding voting stock.[6] The management obviously does not obtain its control over the large corporation because of stock interests. Consequently, as the stockholder is unwilling and unable to control the corporation by virtue of his legal ownership rights and the management is not dependent on control of stock for his power, there is no functional relation between stockholder and the control of the large corporation.

Extent of Concentration

Concentration of wealth and income characterizes not merely corporations, but every segment of our nation's economic pattern. In 1935, 47 per cent of all American families had incomes of less than $1,000 per year. The richest 1½ per cent of the nation's families had an income as great as this bottom 47 per cent.[7] Going back to better times, we find that, even in 1927, when everybody was supposed to be prosperous and the diffusion of stock ownership was at its height, 78 per cent of the dividends reported by individuals in their income tax returns was received by the three-tenths of 1 per cent of the population.[8]

Social Security Board records have produced a new measure of concentration in American industry. Whereas most concentration statistics are limited to corporations, the Board records, covering 1,730,000 enterprises, include all types of businesses except farmers, railroads, governmental bodies and organizations not operated for profit. Of the many millions of workers registered with the Board, 12.3 per cent were found to have been on the payrolls of the 195 largest firms, which represent only one-hundredth of 1 per cent of the reporting concerns.[9] Half of the workers registered were employed by nine-tenths of 1 per cent of the employers. At the bottom of the business ladder, 50 per cent of the employers had only 4 per cent of the workers on their payrolls.[10] In other words, the nation's 195 business giants employed more than three times as many workers as did 865,000 other American business houses put together.

These Social Security statistics, although significant, probably understate the relative size of the giants and dwarfs of American industry, because they cover only workers in this country. This results in a statistical distortion because the large corporations, with their world wide networks of foreign subsidiaries, have proportionately more foreign employees than do the smaller firms.

Furthermore, employee statistics cannot be an adequate measure of concentration, because they do not recognize the high rate of capital investment per employee in certain major industries. For example, a small town department store probably has more employees than a very large hydro-electric power generating company. At the same time the power development may represent an investment 100 times as great as that of the store. To overcome these inadequacies, statistics of assets and income will also be used as indices of concentration.

How Important Is the Corporation In Our Economy?

The available statistics on business assets and income are limited to corporations. To refute these statistics, the apologists for big business have tried to argue that the corporation plays a far smaller role in American business than most people imagine.[11] They point out that only about 60 per cent of the national income is supplied by corporations. The basis for this line of argument is the following table which shows for each industry its contribution to the national income and the percentage of its business done by corporations:

Importance of Corporate Activity, 1937[12]

	Per Cent of National Income	*Per Cent of Business Done By Corporations In Each Industry*
Manufacturing	24.0	92
Government (including work relief wages)	13.5	58
Trade	12.5	58
Service	11.9	30
Finance	9.3	84
Agriculture	8.9	7
Transportation	7.3	89
Mining	2.1	96
Contract Construction	2.1	36
Electric Light & Power & Gas	1.6	100
Communication	1.3	100
Miscellaneous	4.2	33

The 60 per cent figure, though statistically correct, does not truly represent the relative importance of the corporation in our economy, because corporations are not equally distributed, but are, instead, concentrated in strategic industries.

If we take the mining, electric light and power and manufactured gas, manufacturing, transportation, communication and finance industries as a group, we find that 90 per cent of the business done in these industries was carried on by corporations. All other branches of industry are largely dependent on this group for their welfare. The farmer must meet the prices of this group for mortgage money, transportation of his products to the market, farm machinery and other manufactured products, and public utility services. The tradesman is similarly dependent on those industries. The service industry is, to a large extent, an employee of that self-same group of basic industries and government is partly dependent on them. From the viewpoint of economic power, the manufacturing-mining-utility-transportation-finance group is by far the strongest. They possess such industry-wide organizations as the National Association of Manufacturers, Edison Electric Institute, American Bankers Association and the Association of American Railroads, and dominate such organizations as the United States Chamber of Commerce. Though this group accounts for only 45.6 per cent of the national income, its influence on the country's political and economic policies goes far beyond that statistical boundary line. The fact that 90 per cent of this group's business is done by corporations makes a study limited to corporations adequate for all practical purposes.

Concentration of Corporate Wealth

Income tax records show that, in 1936, 396 corporations, or less than one-tenth of 1 per cent of all those reporting, owned 44.2 per cent of all corporate assets, while 227,343 other corporations accounted for only 1.4 per cent of the assets.[13]

Though these statistics show a tremendous concentration of corporate assets, they are nevertheless an understatement of the true situation. The tax law does not allow the filing of consolidated tax returns except, to a limited degree, in the case of railroads. A $10,000,000 public utility holding company which has under its control 20 subsidiaries, each having about $10,000,000 of assets, would be classified as 21 separate corporations in the $10,000,000 asset class, instead of as 1 corporation with consolidated assets of $200,000,000 or more.

This characteristic of Internal Revenue statistics is not a mere academic imperfection. In 1933, the law was much more liberal, as to consolidated tax returns, in that any corporation could file such a return to cover all 95 per cent owned subsidiaries as well as the parent company. The $50,000,000 asset class contained 375 corporations, according to the Internal Revenue Bureau. A check-up showed that at least 102 of them were controlled subsidiaries of the other 273.[14] Undoubtedly there were many corporations below the $50,000,000 level which were also controlled subsidiaries of these 273 giants and, if taken into account, would further increase the relative size of this top group. There is no reason to doubt that a similar analysis of the 1936 data would produce like results.

The National Resources Committee has made a study of the concentration among corporations in 1935 by selecting, according to assets after depreciation and depletion, the 200 largest non-financial and the 50 largest financial corporations.[15] The 200 non-financial corporations had assets, after depreciation and depletion, totaling $74.2 billion in 1935.[16] The assets of the 50 financial corporations, amounting to $40.7 billions,[17] consisted largely of securities of non-financial corporations and therefore are necessarily a partial duplication of the assets of the 200 non-financial companies. The Internal Revenue Bureau reports that the 311,059 non-financial corporations filing income tax returns in 1935 reported $158.4 billions of assets.[18] The 200 largest companies at the top, six-hundredth of 1 per cent of the total number of companies, therefore accounted for about 47 per cent of the total assets of this group.

Corporate statistics, even at their best, cannot tell more than the size and growth of corporations per se, treating each giant as a separate entity. Actually, if we pierce the corporate shell, we find that these giants are interwoven in a closely-knit pattern by means of interlocking directors, common banking connections, family ties and trade associations or "institutes." Stockholders, we have already seen, do not control the large corporation and management does not need to have large stock interests in the company to ensure its domination, with the result that management is practically self-perpetuating.

Under these circumstances, it is particularly important to examine the interlocking pattern of managements of the large corporations.

Interlocking Directorates

Of the 250 largest corporations, only 25 did not have any interlocking directors in 1935. At the top of the list comes Western Union, whose directors held one or more directorships with 35 other giant corporations.[19] Three-fifths of 250 giants had interlocking directors with three or more other corporations in this group, while 187 companies had two or more directors within this circle.[20]

The ties between certain of the 250 corporations are so numerous and powerful as to indicate spheres of common interest. A study has been made for the National Resources Committee of these interrelations, taking into consideration not only interlocking directorates but also the corporate history and other indices to friendships and alliances between various corporate interests. It was found that 106 of the 250 corporations could be set up in 8 groups. These groups and the 1935 assets of the companies covered are:[21]

Group	*Assets (Millions)*
Morgan—First National	$30,210
Rockefeller	6,613
Kuhn Loeb	10,853
Mellon	3,332
DuPont	2,628
Chicago	4,266
Cleveland	1,404
Boston	1,719

The Morgan-First National group has as its nucleus the banking facilities of the J. P. Morgan & Co. and George F. Baker interests. The Standard Oil interests, plus the Chase National Bank, constitute the Rockefeller circle. The banking activities of Kuhn Loeb & Co. are the basis of the group of that name. The Mellon family and DuPont family interests make up their respective nests of companies. The Chicago, Cleveland and Boston groups are, as the names imply, regional concentrations of powerful banking, industrial, rail and utility enterprises, the hubs of which are located in these cities.

These 8 groups are not mutally exclusive of each other, but rather overlap at many strategic points. The board of Pullman has 6 representatives of the Morgan segment, 3 of the Mellon and 3 of the Chicago. Mellon's Gulf Oil owned one-third of the stock of Texas Gulf Sulphur, yet there were 2 Morgan men on the board. Of the 200 largest non-financial companies in 1935, others which had representatives of more than one of these groups are:[22]

American Tel. & Tel.	Montgomery Ward
General Motors	U. S. Rubber
General Electric	Ethyl Gasoline

International Paper & Power

Concentration in its broadest aspects is effected through the part-business, part-social chambers of commerce, trade associations, "intitutes," foundations, etc. Some are extremely powerful, active and resourceful, such as the U. S. Chamber of Commerce, the National Association of Manufacturers, the Association of American Railroads, the Edison Electric Institute and the American Bankers Association. They represent an important extension of business integration, particularly in political and governmental fields and should be given serious attention in determining the extent of corporate interrelationships. Other organizations of this general class are, of course, little more than social clubs.

These general observations become more significant if applied to actual companies instead of to anonymous groups. The complete pattern of the interrelationships cannot be detailed here, nor can they even be outlined, so complex is the design. We can, however, take up one of the most important threads, the American Telephone and Telegraph Company, and follow it through to see how and to what extent it is interwoven with the others, particularly the 250 largest.

American Telephone and Telegraph

Nineteen officers and directors of the A.T. & T. hold 171 directorships or offices in other enterprises, of which 57 are in industrial, 30 in railroad and utility and 68 in financial corporations; 4 directorships in chambers of commerce or trade associations; 2 partnerships in large New York law firms; 9 trusteeships in universities or research foundations and a directorship in the Metropolitan Opera.[23] A. T. & T. is tied in with the following 32 corporations which were among the 250 largest in 1935. When there is more than one interlocking director, the total number is indicated:

Banks

Chase National (2)
Guaranty Trust (3)
Continental Illinois
First National (Boston)
Chemical Bank
First National (New York) (3)
Harris Trust

Utility

Stone & Webster

Industrial

U. S. Steel (3)
Texas Co.
General Electric (3)
Pullman, Inc. (2)
Westinghouse
United Fruit
Montgomery Ward
Armour & Co.
U. S. Rubber
Reynolds Tobacco
American Sugar Refining
U. S. Smelting

Life Insurance

Metropolitan Life
N. Y. Life
Mutual Life (5)
John Hancock
New England Mutual

Railroads

N. Y. Central
Southern Pacific
Northern Pacific
Baltimore & Ohio
Atchison
N. Y., N. H. & H.
Reading

Interlocking directorates mean very little, it is often claimed, because a man who has a dozen or more directorships cannot be active and effective in all twelve at the same time and the directorships he holds are more in the class of honorary degrees than functional designations. Undoubtedly that situation exists in many cases, but it is not likely to be true in the case of the busy and important executive of a major corporation. He is a man of power and is not going to pass up the opportunity to exert his influence while a director of another large corporation. When there is a functional tie between his principal company and the others which he serves as a director, the probability is very great that he will be active in both capacities.

The American Telephone and Telegraph Company is a case in point. As a nation-wide telephone company, it is a large customer of various industrial companies, requiring vast quantities of rubber, copper, steel, electrical machinery and apparatus, as well as other products. It also has large security issues to sell and, with its annual income of over a billion dollars, is a prize customer for commercial banks. Interlocking directorates with commercial banks, insurance companies and many types of industrial companies, therefore, can and probably do, exert a powerful influence on A. T. & T.'s policies and decisions in its business affairs. In addition, as a leading member of the Morgan-First National group, **A. T. & T.** is an important instrumentality for carrying out the broad general policies of the group and maintaining the most advantageous relation with the other power groups, thus safeguarding and improving the position of A. T. & T. and the Morgan-First National group in the business community as a whole. Significant in this connection is the fact that **19** A. T. & T. directors hold the following key positions in **12** giant corporations:

President or Chairman of the Board

Chase National Bank	Baltimore & Ohio R.R.
First National (Boston)	Reading Co.
Mutual Life Insurance Co.	Pullman Inc.
Southern Pacific R.R.	R. J. Reynolds Tobacco Co.

Vice-President or General Counsel

First National (N. Y.)
U. S. Rubber

Member of Executive or Finance Committee

Mutual Life Insurance
Atchison Topeka R.R.
U. S. Steel (2)

For the sake of simplification, we have arbitrarily chosen A. T. & T. as the center-point of this pattern of interlocking companies. This results in a necessary over-simplification, since A. T. & T. is not the hub with spokes radiating to these companies. There is, in addition to these ties, a considerable amount of interlocking directly among these companies. Illustrative of this situation is the relationship existing between Mutual Life Insurance, Guaranty Trust Company, First National Bank of New York and U. S. Steel in **1935**. That year A. T. & T. had four interlocking directorates with each of these companies. There were also four interlocking directorates between Mutual and Guaranty and between Mutual and U. S. Steel. First National had two interlocking directorates with Mutual and two with U. S. Steel and the latter had two interlocking directorates with Guaranty.

These supplemental interconnections indicate possible spheres of influence. U. S. Steel, Guaranty, First National and A. T. & T. are all classed as part of the Morgan-First National group and many of the 32 are in this same classification. The A. T. & T. connections also show important ties with other groups. The Chase National is the largest unit of the Rockefeller group, yet its chairman is on A. T. & T.'s directorate and Walter Gifford, A. T. & T.'s president, is trustee of two Rockefeller institutions, General Education Board and Rockefeller Foundation. A. T. & T. is also tied in with the Boston group through First National Bank of Boston, Stone & Webster, United Fruit Company and U. S. Smelting. The Chicago group is linked in via the Continental Illinois Bank, Harris Trust and Armour & Co. Southern Pacific and New York, New Haven and Hartford tie in the Kuhn Loeb group and U. S. Rubber is in the DuPont orbit.

Beyond the realm of the ordinary corporation we find the A. T. & T. directorate has two directors on the board of the American Association of Railroads, one member on the N. Y. State Chamber of Commerce executive committee, while other members of the directorate serve as trustees of Carnegie Institute and Cooper Union, as president of the board of Johns Hopkins and as chairman of the finance committee of Massachusetts Institute of Technology.

The A. T. & T. board is not a group of men who spend all their time taking care of the nation's phone service. Instead, they turn out to be powerful leaders in many important fields and are, in effect, an extremely significant coordinating body integrating the policies and activities of a great number of seemingly independent and distinct companies.

Interlocking directorates vary in importance with the director and the company. It would be absurd to portray A. T. & T. as an octopus with 171 directorship-tentacles controlling the life and death of all the enterprises they touch. The presence of the chairman of Chase National on A. T. & T.'s board does not mean that A. T. & T. dominates Chase National nor does it prove the reverse situation to be true. But it does mean that there is a certain minimum amount of community of interest between the two and no basic conflicts. Generalizations are particularly dangerous in any analysis of interlocking directorates, but it cannot be denied that the more permanent these ties between corporation heads are, the more likely it is that companies involved are closely allied and will act accordingly.

Concentration in Specific Industries

The problem of concentration is not the same in every industry. We have already seen that the corporation is a minor factor in agriculture, while in transportation and utilities, finance and manufacturing it takes care of over 90 per cent of the business. In these three fields it is the corporation with assets of $5,000,000 or more which gets the lion's share of the business. The following table shows to what extent the corporate assets in each of these industries were owned by $5,000,000 corporations in 1935 and what per cent these giants are of the total number of corporations in the industry.[24]

THE CONCENTRATION OF CORPORATE ASSETS IN CORPORATIONS OF $5,000,000 OR OVER, IN VARIOUS INDUSTRIES, FOR THE YEAR 1935

Industry	*Percent of total number of corporations*	*Percent of total corporate assets*
Transportation and other public utilities	4.6	92.7
Finance	2.6	77.7
Manufacturing	1.5	65.8
Mining and quarrying	2.5	64.8

The other industry groups such as construction, trade, service, and agriculture do not show concentration in large corporations. The giant corporation is, however, making its appearance in those fields, particularly the chain store in retail trade. In 1935, chains had 140,000 stores which accounted for 50 per cent of the retail shoe sales, 38.2 per cent of grocery sales and 90.8 per cent of the 5-and-10 cent store sales.[25]

Another index as to where the large corporation is to be found is the analysis of the 396 corporations which were reported by the Internal Revenue Bureau as having assets of $100,000,000 or more in 1936. About half the group, or 195 to be exact, were in the financial field, 112 in transportation and public utilities, 72 in manufacturing, 8 in mining and quarrying, 6 in trade, 2 in service, 1 in agriculture and none in construction.[26]

The "250" Dominate Their Industries

Coming back to the 250 largest corporations, we find that they dominate broad areas of the economic domain. The railroads in the group operated over 90 per cent of the nation's rail mileage in 1935. The electric utilities supplied over 80 per cent of the nation's electric power, the telephone companies over 90 per cent of the phone service and the telegraph companies practically all the telegraph service. The life insurance companies held over 81 per cent of the total assets of all the life insurance companies.[27]

In the manufacturing field, these giants are to be found in many of our major industries. The following table shows for each industry how many of its largest units are in the "250" group and to what extent the industry's total business is conducted by the 4 largest producers, except in the cases of steel and petroleum (where we show the business done by the 8 largest producers.) This tabulation is based on Census data and is dependent on Census classifications. Each company is classified according to its *primary* activity. Thus General Motors is in the motor vehicle group and its Frigidaire business is completely ignored. Since many of the giants engage in a wide range of activity, this tabulation is necessarily an understatement of the role of the large manufacturing company:[28]

Industry	*Number of Companies in the "250" Group*	*Percentage of Industry's Business Done by 4 Largest* Producers in 1935*
Steel	10	63.8**
Motor Vehicles	3	87.3
Motor Vehicle Bodies and Parts	3	69.4
Petroleum Refining	17	58.9**
Meat Packing	4	55.6
Chemicals	4	37.1
Rubber Tires and Tubes	4	80.9
Cigarettes	3	89.7
Farm Machinery	2	72.4
Electrical Machinery	2	44.4
Tin Cans	2	80.8

* Based on value of product
** 8 largest producers

Banking

In the banking field, the concentration is really of a compound nature. A survey showed that the 12,003 cities in this country had

17,270 banks in 1936, or about one and a half banks per city.[28a] The inhabitants of 8,962 cities had but one bank in their cities, and their choice was to do business with it or seek financial facilities in distant parts. Another 2,201 cities had two banks, which meant the possibility, although a very slight one, of competitive banking facilities. Thus only 840 cities, or about 7 per cent of the total, had more than two banks to choose from in their city. These localized monopolies and duopolies are but half the picture. In most instances the banks in the smaller cities are closely associated with and dependent upon some large bank in New York, Chicago, San Francisco or Boston.

Not only is there concentration when we compare banking in large and small cities, but there is further concentration within the big city group. New York City, for example, had 12 of the 16 largest commercial banks, including the top three. The net assets of these 12 New York banks totaled over $12 billions in 1935.[29] On a national scale, seven-tenths of 1 per cent of the national banks held 47.2 per cent of the bank assets in 1934.[30]

A very important field of banking is security flotation. Most large corporations depend upon security underwriters to sell their stocks and bonds to the general public. Without relatively easy access to this security-selling machinery, the large corporation may be stymied in its efforts to get new capital for expansion or refund old security issues at lower interest rates. The underwriter is consequently in a very strategic position with the power seriously to affect the welfare of a corporation if the underwriting business is concentrated in the hands of a few large firms. SEC data shows this to be the case, for, in 1935, of all corporate security underwriting, the ten largest firms initiated 56 per cent.[31] Another important outlet for corporate securities is the life insurance company and there, too, as the next section shows, concentration has narrowed the possible number of outlets for corporate securities. As a result, we can see that industry is dependent on fewer and fewer financial institutions for banking services and for ways and means of selling its securities to the public.

Life Insurance

The biggest of the big corporations in the modern business structure is the life-insurance company. In 1937, there were only 308 legal reserve life-insurance companies with assets of $26,249,000,000.[32]

The number of insured in 1937 was estimated at 64,000,000 and the total insurance in force at $109,600,000,000.[33] Even among these super-corporations, there are "little fellers," and the big ones—relatively speaking. The largest of them, the Metropolitan Life Insurance Company, had $4,720,000,000 in assets, or more than 18 per cent of the combined assets of the 308 companies.[34] The 5 largest had 54.4 per cent of the assets or about $14,279,000,000 and the 16 largest controlled 80.6 per cent of the assets.[35]

These companies have grown at an amazing rate. Their expansion has been many times as fast as the growth in population. Since 1890 our population has doubled, but the life insurance in force during the same period increased to 25 time its then size.[36] The life insurance policy has become a form of savings account and can therefore be compared with the other established forms of savings. Insurance companies have grown much more rapidly than the savings divisions of our banking systems. In 1920, mutual savings banks assets, plus the savings and other time deposits in state and national banks, totaled $15,750 million, more than twice the total life insurance com-company assets, which were $7,320 millions.[37] By 1937, the bank group had increased about 65 per cent to $25,974 millions, but life insurance assets had risen 258 per cent to $26,249 millions, or *more* than the bank group, as compared with less than half in 1920.[38] Although insurance in force has had a very sharp growth, it was not so sharp as that of the assets. During the 1920-1937 period, insurance in force increased 160 per cent, only five-eighths as much as the assets.[39]

The disproportionate growth of assets, coupled with the declining death rate, means that there has been a steady accumulation of funds in the insurance company's reservoir over and above the amounts needed to meet policy requirements. During this 18-year period, despite the extreme depression, income from premiums alone, exclusive of income from investment, exceeded all expenditures of the life insurance companies by $3,380 millions. Thus the company's reserve of billions of assets not only wasn't depleted during the crisis years but was actually increased. This would seem to indicate that receipts of life insurance companies far exceeded that required to meet policy payments.

Insurance assets, like bank assets, are principally kept in the form of stocks, bonds and mortgages, with only 3 per cent of the total being kept in cash form.[40] Half of the $26,249 millions of assets were invested in bonds, another $5,229 million in real estate mortgage, $2,190 million in real estate and $513 million in stocks.[41] With these ever mounting billions to invest, the insurance company has become a very powerful element in the money market. During the years 1937 and 1938, there were issued $3,656 millions of corporate bonds and notes. Of this amount, the 10 largest insurance companies bought $2,139 million, 58.5 per cent of the total.[42]

The life insurance companies could be accurately called the largest creditors in the nation, with every group in the community in debt to them, even the Federal, state and local governments. A survey of the 49 largest insurance companies revealed that, at the end of 1938, they held in the form of bonds and notes:

23 per cent of all railroad debt
22 per cent of all utility debt
15 per cent of industrial corporate debt
11 per cent of direct and guaranteed debt of the U. S. Government
9.93 per cent of net outstanding state and local government debt.

In the form of mortgages they held 14.5 per cent of the urban real estate debt and 11.3 per cent of farm mortgage debt.[43]

During the depression years, mortgage foreclosures have made insurance companies large owners and absentee operators of farms and urban business and residential buildings. In 1927, the 49 largest insurance companies held $1,983 millions of farm mortgages, but since then these holdings have dropped until, at the end of 1938, only $800 millions was so invested. This decline is particularly significant in view of the growth of total assets during the same period from $13 to $25 billions. Farm mortgages were 15 per cent of 1927 assets and only 3.1 per cent of 1938 assets. Foreclosures apparently accounted for most of the drop, because urban and rural real estate, owned by the companies, rose from $255 millions in 1927 to $1,982 millions at the end of 1938.[44] Behind these cold statistics are the tragedies of thousands upon thousands of farmers and families who lost the farms and homes they built, farms upon the possession of which their economic and family stability depended.

Insurance companies are subject only to state regulation. When measured up against their regulators, some of these insurance companies are significantly the larger. Metropolitan Life is a New York company and under the jurisdiction of that state's insurance department. Only a minor part of the state's activities and taxes are devoted to insurance department activities, yet we find that, in 1935, the premium income of Metropolitan was $939 millions as compared with New York State's total tax revenue of $316 millions that year.[45] In New York State alone the Metropolitan collected $148 millions in premiums during 1935, which means that New Yorkers paid 47 cents in "insurance taxes" for every dollar in regular State taxes. Similarly in Wisconsin, the largest insurance company under the state's insurance division, Northwestern Mutual Life, collected $130 million in premiums during 1936 as against $86 millions collected by the State of Wisconsin in taxes. In Pennsylvania, tax collections were $157 millions in 1935, while two Pennsylvania insurance companies collected $122 millions in premiums.[46]

Though most of the life insurance companies operate on a national scale, the competition between them is of a very genteel sort. Recent hearings before the TNEC brought forth the fact that there is collusion between the largest companies as to rates. In 1935, a conference on rate increases was held with representatives of Metropolitan Life, Prudential, Travelers, Aetna, Provident Mutual and Connecticut General in attendance.[47] These companies are 6 of the 17 largest. They had $10,353 millions of assets among them in 1937 or 40 per cent of the nation's insurance assets. They decided on a rate increase which was put into effect not only by these but also by other companies which feared to engage in price competition with these giants.

Agriculture

Agriculture is the most competitive branch of our economy. This condition is not a matter of choice, but of necessity. Agricultural prices are basically set in world markets, although in recent years they have been pegged by government subsidy. In addition to these factors historically agriculture developed on a very individualistic basis so that even today the agricultural corporation conducts less than 10 per cent of the nation's agricultural business. However, big business has invaded even this stronghold of competition.

The dairy industry shows the strongest trend towards concentration. Two corporations, Bordens and National Dairy Products, dominate the industry. Each of them possesses about 125 subsidiaries or divisions, most of which were at one time local and independent dairy companies. In 1938, National Dairy Products handled 9.7 billion pounds of milk—equal to about 4 and a half billion quarts.

Mechanization of the farm has led towards greater concentration throughout the agricultural industries, first by making it possible to operate larger and larger areas under a single management and, second, by hastening the financial ruin of the small farmer because of the high cost of farm machinery. Census data shows that the trend has been towards the larger farm unit. In 1910 28.5 per cent of the country's farm acreage was in farms of 500 acres or more, while 71.5 per cent was in smaller farms. By 1930, farms of 500 acres or more accounted for 39 per cent of the nation's farm acreage, while the smaller farms lost correspondingly.[48]

Far more important than the increasing size of the farm operating unit is the serious growth of farm tenancy and absentee ownership of the farms. The farmer has been steadily losing ownership of his farm because of his unyielding mortgage burdens and the ever-yielding prices he obtains for his product. In 1910, 52.9 per cent of the farm acreage in this country was fully owned by those actually operating the farms, but, by 1935, only 37.1 per cent was in this category.

"Fully owned" meant much more in 1910 than it did in 1935. The farmer is very reluctant to surrender ownership of the land he works and so he gives up step by step. Many of these "full owners" have really sold part interests in their farms by mortgaging them, with the hope that some day they may get rid of this threat to their land ownership. In 1910, mortgages were burdening 36.6 per cent, by value, of the nation's farm land and buildings. These properties were mortgaged only up to 27.3 per cent of their value. By 1935, 49.5 per cent of the farm lands and buildings were under mortgage. These liens were equal to 50.2 per cent of the mortgaged property's value.[49]

Many farmers do not even have the dubious good fortune of having to worry about their mortgage. They had a farm, then they had to get a mortgage to keep going and finally had to give up their farm to the mortgage-holder. We have already noted the vast increase in farm and home property held by large insurance companies, most of it presumably obtained by farm mortgage foreclosure. The insurance company became an absentee farm owner and the farmer who worked the land became a farm tenant or sharecropper. Farm tenants and sharecroppers operated 25.8 per cent of the nation's farm acreage in 1910, while, by 1935, 31.9 per cent was so operated.

The decline of farmer ownership and the concurrent rise of farm mortgages and farm tenancy indicate an unmistakable trend towards concentration of agricultural control by the giant financial institutions. Ownership is significant here and is not at all in the same category as is possession of a few shares of stock in the A. T. & T. In fact, the situations contrast sharply one with the other. One of the *659,000* stockholders in the telephone company can do practically nothing towards influencing the *one* A.T. & T. But *one* Metropolitan Life or Prudential Life, by its decisions as to farm real estate, can determine the policies of the thousands of farms controlled by it.

Concentration Does Not Characterize All Industries

While concentration prevails in many industries there are still many industries where the small enterprise is dominant. Agriculture is, of course, outstanding among those industries, where small units prevail. Here we find 7,000,000 farm units, of which only 42,000 employ more than five persons per unit.[50]

Despite the chain store, mail-order houses, and large department stores, retail trade is also in a large measure still in the hands of small enterprises. In 1935, stores doing less than $30,000 business annually accounted for 30 per cent of retail sales. A similar condition is to be found in the private construction industry where a third of the 1935 business was conducted by organizations doing less than $50,000 business each.[51] In the service industries likewise the major part of the activity is carried on through relatively small units. The motion picture industry is one of the exceptions in this field.

The manufacturing field still possesses a number of branches wherein the giant corporation is as yet a minor factor. As previously pointed out, the Census data is statistically biased in the direction of underestimating the relative importance of the large corporation.[52] Nevertheless, it seems reasonable to assume that an industry where the eight largest producers account for less than 20 per cent of the total value of products manufactured is not one which is dominated by a few large corporations. A few of the industries which come in this category are:[53]

Cotton manufactures	Book, music & job-printg & publishing
Silk manufactures	Men's, youths' boys' clothing (not elsewhere classified)
Knit goods	Women's, misses' & children's apparel (not elsewhere classified)
Furniture	

These are a few and there are probably many more. It is important to remember that concentration statistics are not comprehensive enough to give an industry-by-industry or product-by-product analysis of our entire economic structure. An important gap in the data will be filled in by a study now being conducted by the Department of Commerce for the TNEC. This study is an analysis of the degree of concentration existing in the production of each of 3,000 commodities. When that study is complete, it will be possible to appraise the extent of concentration in industry as a whole from a proper statistical perspective.

Concentration Analysis Must Go Beyond Statistics

Statistics alone, even if they were complete, up-to-date and flawless, however, could not give more than a static portrayal of concerntration. They usually show, by a series of numerical snapshots, the economic machine at rest. Of at least equal importance would be a motion picture description of the economic machine in operation, a dynamic rather than a static analysis. The functional analysis of the relations between corporations and industries would bring out the fact that there is considerable concentration at strategic points. The farmer, the clothing manufacturer, the building construction company—all of them—may be operating in concentration-free industries—according to statistics. But when these entrepreneurs try to borrow money, or to sell securities, or to buy farm machinery or structural steel, they run into conditions which may seriously affect their abilities to survive and prosper. The statistics which prove that industries are free from internal concentration do not mean so very much under these circumstances.

Concentration in basic or focal industries is effective beyond the borders of the particular industry and affects all the industries dependent on them, regardless of whether or not the latter are characterized by similar conditions.

How Profitable Is Big Business?

The most popular attack made against Big Business is that it makes exorbitant profits. That question has been more heatedly debated than any other aspect of the monopoly problem, with a great deal of confusion existing on both sides. The controversy usually is whether the large corporation earns greater profits per dollar of investment than does the smaller company.

Almost invariably the rate of profit has been determined by using as a base the company's capitalization, the assumption being that it represented investment. This assumption is not sound, particularly in the case of large corporations, although no statistics are at present available which show conclusively the extent to which capitalization comes nearer to represent investment in the small corporations than it does in the large companies. A great many of our present--day giant companies are the result of mergers or combinations of a number of smaller companies. These amalgamations were usually inspired and engineered by banking and security-selling houses. They were primarily interested in the venture as a security-selling scheme, because that was the best way they could realize large immediate profits. As a result, most of these mergers were notoriously overcapitalized. The U. S. Steel Corporation is a classic example. Formed in 1901 with a capitalization of $1,400 million by J. P. Morgan & Co, it then contained about $600 million of "water." Morgan & Co., however, received an underwriting fee of $69 million for engineering the transaction. Capitalizations of such combinations, therefore, represented investment plus water and are not a satisfactory basis for computing rates of profit during the history of the company.

A further complication is the reinvested earnings of these corporations without issuance of securities for such investments. These reinvested earnings, it has been frequently claimed, have replaced the "water" in many corporate capitalizations, making them proper bases for profit computations. In support of this theory, it is contended in a recent study by the Twentieth Century Fund of big business profits that "reinvested profits have gradually displaced water."[54]

It should be made clear, however, that, unless the original inflation or water is written off, reinvested profits do not displace it, unless the profits are put in without recording them in accordance with the usual corporate accounting practice. It is true, however, that if the company's surplus is ignored, the *nominal* capitalization consisting of bonds and stocks outstanding will come closer to representing the actual investment, if profits have been plowed back. To determine how much water was in the nominal capitalization of a company and to what extent reinvested profits are equal to such water would require a gigantic revaluation of corporate assets and a detailed analysis of each company's financial history, an almost endless task for a large corps of statisticians.

Even if these gargantuan statistical obstacles could be surmounted, the result would not be worth very much. To what extent is a giant corporation entitled to have its plowed back profits considered as legitimate investment? If the newly-formed combination is so large as to dominate the industry in which it is operating, its profits can not be considered earnings in the same sense as those obtained in truly competitive industries. If the newborn giant is operating in a basic or essential industry, its earnings are in effect a compulsory tax levied by a private business empire on a populace which has no representatives to defend it. How much of a company's profits is earnings in the ordinary business sense and how much is the result of the domination of the industry by the particular corporation cannot be calculated by any formula or rule of thumb.

Finally, the separation of stock ownership and control in the modern large corporation has robbed profit rates of most of their significance. The manager of the smaller company is usually the principal investor. It matters little whether the management takes its profits as salary or as dividends on its stock. In the large corporation, management cannot depend on dividends for its share of the profits and therefore takes them in the form of exorbitant salaries, commissions and bonuses which are recorded as part of the companies' "expenses" along with the workers' wages. The profits as reported by large corporations are, therefore, in many cases, "stockholders' profits," after management profits have been extracted, while profits as reported by the smaller company are often net incomes inclusive of the managers' share. Profit rates of large corporations based on capitalization and reinvested earnings are, consequently, in many instances, practically worthless for comparison with profit rates of smaller corporations.

Although direct measures of corporate profits are unreliable because they grossly understate those of the large corporation, indirect indices can be utilized to ascertain in a rough way the relative profits of big business. The concentration of income is almost as great as the asset concentration among the large corporations. The 396 corporations which held 44.2 per cent of the corporate assets also received 34.3 per cent of the corporate net income in 1936.[55] The net income of this group (which includes only companies with assets of $100,000,000 or more) was $2,463 millions in 1936, whereas the 227,343 companies which have assets of $50,000 or less reported a net *deficit* of $102 millions.

Most corporate profits are made by companies which have incomes of $1,000,000 or more. The company which reports in its tax return a net income of $1,000,000 or more probably has assets of $5,000,000 at the very least. In 1933, at the bottom of the depression, only 387 companies reported incomes of $1,000,000 or more and only 109,786 companies reported net incomes at all. Yet the 387, or less than 4/10 of 1 per cent of the income-reporting companies, accounted for 51.6 per cent of the net income of the whole group.[56] In 1934, there were 580 companies with net incomes of $1,000,000 or more, accounting for 48.7 per cent of the total net income reported by 145,101 companies. The number of big income companies increased to 710 by 1935, less than one-half of 1 per cent of the income-reporting companies, but reporting 50 per cent of the total net income. There were 1,288 companies in this class in 1936, 6/10 of 1 per cent of the total companies, accounting for 58.4 per cent of the total corporate net income reported for that year. Undoubtedly there were throughout these years large companies which had small profits, small deficits or even large deficits. Nevertheless these income tax statistics do show that most corporate profits were concentrated among companies which had profits of $1,000,000 or more and no small company could be in that class.

Corporate expansion is usually the result of profitable rather than unprofitable business and is ordinarily accomplished either by using part of the profits to build additional facilities or by buying out less successful companies in the same field. In 1909, the 200 largest non-financial corporations held about one-third the assets, excluding intercorporate securities, of all non-financial companies, but, by 1929, the then 200 largest held 47.9 per cent and, by 1933, 54.8 per cent.[57] Apparently, the big grow bigger not only in an absolute sense but also on a relative basis. This disproportionate growth would be very unlikely if the 200 largest corporations were poor profit makers.

Strenuous efforts have been made to refute the claim that the big corporation has been getting a greater and greater share of the nation's wealth and income under its control. One group came to the conclusion that the 200 largest non-financial corporations have really not grown as rapidly as the national wealth, national income, average weekly wages, the cost of living or the general price level.[58] In arriving at this conclusion, the researchers used as an index of the growth of the 200 giant corporations, their nominal capitalization. The weakness of such comparisons is apparent if a specific application is made. The nominal capitalization of U. S. Steel was $1,475 million in 1909 and only $1,379 million in 1924 (the above mentioned study was based on the 1909-1924 period). If nominal capitalization is a criterion, U. S. Steel didn't grow at all, but shrunk instead about $100 million, although the fact is that the company's total assets increased over $700 million during that period and surplus increased, presumably from reinvested earnings, $500 millions.[59] A corporation can and often does have increased earnings and assets without changing its nominal capitalization, particularly when, like U. S. Steel, it had lots of water in that nominal capitalization at the start. From the evidence at hand, despite the many claims to the contrary, it seems that the big corporations of the country are obtaining an ever larger share of the nation's income.

Prices Too High—Production Too Low

Along with the large corporation and concentration in industry have come two phenomena: rigid prices and curtailed production in times of depression. According to orthodox competitive theory, in times of depression, prices drop as supply exceeds demand and substantial curtailments in production are not made unless the price reduction fails to open up new markets for the surplus products. The industries where much concentration prevails do not seem to operate under any such theory. The following tabulation, taking 1929 as a base, shows the percentage of decline in prices and production from 1929 to 1932 and the percentage of increase from 1932 to 1937:[60]

Industry	Per Cent Decline 1929-1932 *Prices*	*Production*	Per Cent Rise 1932-1937 *Prices*	*Production*
Motor Vehicles	12	74	2	64
Farm Machinery	14	84	9	84
Cement	16	55	20	24
Iron & Steel	16	76	20	67
Agricultural Commodities	54	1	36	8

The contrast between the movements of prices and production in agriculture and four "concentration industries" is so great that it is hard to conceive how industries which fall in one or the other group can operate as reciprocal parts of the same economic machine. These few figures epitomize the dangerous lack of balance in our economy. The motor vehicle industry let prices down 12 per cent and found that, with such prices, the public could buy only one-quarter as much as in 1929. Farm machinery prices were slightly more flexible, but not enough to be within the farmers' reach and so production was cut 84 per cent. The farmer, on the other hand, couldn't fix prices and so maintained his production, even though prices were cut in half. The steel and cement industries adopted policies similar though not quite as drastic as those of the motor car industry. When we turn to the upturn from 1932 to 1937, the motor vehicle industry in 1937 was about a tenth below 1929 as to prices and production. Cement was selling at four per cent *above* 1929 prices, but production was around 30 per cent *below* 1929 levels, and steel showed somewhat similar characteristics. Agriculture alone had a greater production and lower prices in 1937 than in 1929.

These price and production policies are most prevalent in the mass production industries even though they are the antithesis of the mass production-mass consumption principle. Instead of enabling the public to get more and more for less and less money, the giant companies, by virtue of their powers of domination, can and do prevent prices from going down, fearful as they are that the public will not buy enough to make the lower prices profitable. That fear visits every business man and farmer when he finds it hard to sell his product at a certain price.

Agriculture and other fully competitive businesses must take the risk, cut prices and hope the product will move. The giants in the concentration industries have a greater control and can avoid the risk by cutting production, because there is no one else in their particular industries who will dare to maintain or increase production.

Mass production industries have given the public a better product for less money, but the price and production policies which they follow keep the public from getting the full benefits of modern processes and techniques. The maintenance of prices keeps the product out of the reach of great numbers during less prosperous years, thus narrowing the market to the point where only a small fraction of the industry's mass production capacity can be bought by consumers. The downward spiral of our economy in bad times is sharper and faster because of these policies. With the market able to absorb but a fraction of an industry's capacity, production is drastically reduced, and hundreds of thousands are thrown out of work within a very short time. The sharp shrinkage of purchasing power causes a rapid and considerable contraction of the already narrow market and so the spiral descends, until government or good luck or a war halts the avalanche. Everybody, directly or indirectly, is dependent on the products and services of these industries, dominated by an intricate net work of giant corporations. All are therefore the victims of these price and production policies. Many of our most pressing problems, such as unemployment and low-cost housing, cannot be solved unless we first revise these business policies.

Private concentration of economic power is not a detached statistical phenomena produced by juggling a lot of numbers in a vacuum. It is a very real problem, touching each and every one of us whether we are aware of it or not. We haven't yet fully emerged from the depression ravine. Some headway has been made, but not nearly enough. Domination of many of our basic and essential industries by an integrated group of giant private corporation is a fundamental obstacle to a complete solution of our depression problems and to any program of efficient utilization of our modern technology and resources for the public welfare.

II. WHAT CAN BE DONE

Industrial Democracy, the Answer to Private Concentration

THE revitalization of our economy cannot be gained by a mere negative solution of the problem of concentration. More than that is necessary. We must get rid of the ill effects of private concentration of economic power and, at the same time, obtain the full benefits of modern technology. To attain this goal a balance must be established among economic forces in our economy and yet the whole structure must be kept flexible, so as to permit growth and relatively smooth adjustment to new conditions.

Practically every one favors the theory of balance in our economy. Practically no one favors sacrificing some of his own present or potential economic power to establish or maintain such balance.

Faced with this dilemma, the classical economist says, "Establish a laissez-faire system and balance will be automatic." Laissez-faire means that every group in society must stand on its own feet economically, without receiving or giving aid to one another. A fair test of this theory would require the repeal of all tariffs and government subsidies and practically every form of labor and social legislation, both national and local, except sanitation, police and fire laws. Government would have to recede to eighteenth century standards and the rest of society adjust itself accordingly.

These preliminary steps would cause such havoc, particularly with labor, that it would seem that the cure in this instance would be about as deadly as the disease. Every group would suffer and, as a consequence, the program would receive the support of none except, perhaps, an abstract economist, curious to see what would really happen. The changes required are so drastic and the economic cost so great as to make the program wholly impracticable, even if we assume (and it is a very large assumption) that once pure laissez-faire is established, balance will be automatically maintained.

At the opposite end of the see-saw of economic theory are the super-planners who claim that everything must be blue-printed and nothing left to competition, chance or the future. Their answer to present day concentration of power in the hands of a private few would be an even greater concentration of power in the hands of a "public" few, a supreme planning board, to be elected by the people. Such a board, to be effective, would have to be vested with broad powers to carry out its plans as well as the authority to draw them up. Perhaps, as is contended, maximum coordination and efficiency in the utilization of our economic resources could thus be attained, but only by sacrificing democratic principles in view of the fact that our political development has not kept pace with our economic growth. This conflict between complete planning and democracy seems inescapable, at least until the public participates more actively and intelligently in the affairs of government, because the prerequisites to successful wide-spread planning are an alert and informed public and a planning board fully responsive to the will of that public.

No Single Formula Fits All Industry For All Time

The solution we are seeking is not to be found in a pat slogan. Our economy is far too complex to apply any one formula to all conditions. Some industries are still essentially competitive: others may be regarded as monopolistic. Some operate on a national or international scale, others on a local or regional basis. Standardization of processes or products characterizes certain segments of our economy, while other branches experience frequent and broad changes in method and product. Add to this complexity the fact that even this elaborate pattern is constantly changing and that, over periods of years, basic changes occur in many industries.

All industry can be divided into three general sections for the purpose of determining what shall be done about the problem of concentration. At one end can be grouped those industries which are essentially competitive; at the other end, those which are basically non-competitive. Logically speaking, there is no room for a third class, but that third class is a reality, nevertheless, forming a twilight zone between two other groups. The industries in this category have both competitive and non-competitive characteristics. Undoubtedly this group contains industries which should be in the competitive section and others which ought to be classed as non-competitive, but as yet we do not have a complete picture. No clear lines of demarcation can be drawn. It must therefore be borne in mind that, when we divide all industry into three parts, this division is arbitrary and solely for the purposes of analysis. As a matter of fact, we are not sure that the three segments will not become two after further study and development. The middle zone, about which the least is known, may represent a transitory stage in the metamorphosis of certain industries from competitive to non-competitive levels.

The various suggestions that are made in the following sections are more in the nature of broad guides as to what should be done now or in the near future about existing conditions than permanent solutions of the problem. They are first steps, not the final answer.

The Competitive Industries

Certain industries, as now constituted, could maintain relatively healthy conditions as a result of the inter-action of competitive private business units, active labor unions and alert consumer cooperatives, with government interfering only as umpire or traffic officer through the enforcement of anti-trust, labor and other social legislation. Among the industries in this category are agriculture, contract construction, trade and service, which as a group accounted for 35.4 per cent of the national income in 1937.[61]

A specific list of all the branches of industry which should be in the competitive group cannot be set out, as it has yet to be drawn up. Until recently it has been complacently assumed that an industry is competitive unless it is exempted by law. It may be said, as far as legislation is concerned, the only recognized exemptions are railroads and public utilities. All other private corporations are supposed to be engaged in orthodox competitive business. Today no such simple view is tenable, since it is widely admitted that there are industries which are neither members of the legally exempt group nor of the competitive group in the traditional sense of the term. It is therefore essential that the competitive industries be designated affirmatively. What then are the essential features of an industry which should be labeled competitive?

This group should include those industries which can operate efficiently and economically through small or medium-sized units with a relatively low capital investment per unit of production and whose products are essentially and necessarily non-standardized. The absence of product standardization makes it uneconomic to apply mass production methods in these industries to any great extent. The unsuitability of mass production methods on a large scale means that there is little likelihood that any large investment per unit of production is necessary. An up-to-date plant utilizing the best technology will not necessarily be a large one under these circumstances and, consequently, the small company in these fields can give the public all the benefits of modern business technique. As long as these conditions characterize an industry, the giant corporation cannot be justified on economic or technological grounds. The giant corporation in any such industry is, from a functional viewpoint, a parasitical holding company which serves no useful function as far as the public is concerned but which, on the contrary, merely adds to the cost of the industry's product. Bigness in such instances is not a sign of progress, but the reverse and should be prohibited. Attacking bigness in these cases does not mean turning the industrial clock back, because it does not destroy any economic or technological benefits.

Competition, however, does not operate automatically for the public's benefit. Left entirely to their own devices, business men either combine among themselves, thus ending competition, or gravitate toward the other extreme of cut-throat competition which brings in its wake substandard labor conditions, inefficiency, uneconomic price gyrations and a high mortality of business enterprises. To minimize the destructive elements and maximize the beneficial features of competition, it is necessary to supplement private competition with strong and active labor unions, consumer cooperatives and governmental regulation.

The consumer cooperative in this country is most likely to thrive in the industries which are considered competitive. The relatively small investments needed to get started and the fact that these industries are essentially competitive enable the cooperative to obtain a foothold much easier than would be the case in the automobile or steel industry. Just as the union would protect the worker and his rights, so the cooperative, if it really operates, would safeguard the consumers' interests in the competitive industries. Prices could thus be kept in check and the product quality, as well as the advertising standards, improved. To be truly effective, the cooperative, like the union, should be an independent organization not dependent on government or business for its sustenance and strength. Pure food and drug legislation, as well as fair trade practice laws, would still be necessary to establish minimum conditions.

Unfortunately, neither the labor union nor the consumer cooperative is today strong enough to defend effectively the interests of worker and consumer without substantial supplemental governmental activity in these fields. The union is today more effective in its field than is the cooperative, but the latter could be built up considerably, particularly in industrial areas, if the unions would help. A strong cooperative movement should, in turn, help increase the strength of the labor unions.

Until the cooperatives grow to full size, government will have to perform some of the functions which, ultimately and preferably, the cooperatives ought to take over. A beginning has been made by the Federal Government with its consumers' unit in the Department of Agriculture, but it is far from adequate. A new department should be set up to coordinate and carry on a far more extensive consumer service. Under its jurisdiction would come the pure food and drug and truthful advertising legislation, as well as the duty to make continuous price and product investigations. If, despite all the protective measures, an industry in this group develops non-competitive price and production policies not justified by any basic change in the industry's technology or economics, then it should be subject to anti-trust prosecution.

The Role of the Anti-Trust Laws

It is doubtful whether any set of laws has been the subject of so much muddle-headed controversy as have the anti-trust laws. All too often critics claim they are utterly useless while self-appointed defenders urge that their application can cure all our economic ills. In practice, these statutes have been for a good many years bewildered orphans in the legal and economic storms. The tongue-in-cheek enforcement by the post-war Republican administration and the New Deal's suspension of them during NRA days have only added to the general confusion.

The basic Sherman Act of 1890 was Congress' answer to the complaints of the little business men against the big. Its vague language is ample evidence that Congress had no clear-cut set of specific remedies in mind and therefore limited itself to a statement of the principle that restraints of trade and monopolies shall thenceforth be illegal. The problem was one of intra-industry relations between business men and business men. Congress dealt with that question and that one alone and prescribed accordingly.

The anti-trust laws were intended to enforce competition within an industry between business men, not to halt or change broad economic trends, nor to take care of all problems of business structure and operation. If competition is the best pattern for a particular industry, the anti-trust laws are pertinent and useful in establishing that condition. If the laws as they exist today cannot adequately perform that function, they should be amended accordingly. Insofar as competitive conditions can produce a desired condition, the anti-trust laws are useful. Where competition is not the key to the solution, they are irrelevant.

Just how far the anti-trust laws can go towards rehabilitating the economic machinery of our nation depends on the extent to which competition provides the way out. In 1890, competition was applicable to a very large section of our economy. Nineteen thirty-nine differs from 1890 in that we no longer accept as axiomatic that competition is the ideal pattern for all industries. The development of the public utility concept, the use of mass production with the resultant large capital investment per unit of production and a host of other economic and sociological problems make it impossible for us complacently to rely on a back-to-competition movement as a cure-all for our economic ills. Assistant Attorney General Thurman Arnold, in charge of enforcement of the anti-trust laws, said recently that "we do not contend that the application of anti-trust laws is adequate in all industrial situations."[62]

A very common argument against the anti-trust laws is that they are anti-bigness per se and that the rise of the large corporation is proof that they cannot be successfully enforced. Anti-trust enforcement, or, more accurately, pro-competition enforcement, is not necessarily nullified by the existence of large corporations. The important question is, "Can a particular industry function properly on a competitive basis and to what extent does a big corporation dominate the industry?" Thurman Arnold has explained that those enforcing the anti-trust laws picture themselves "in the role of a traffic officer freeing the movement of goods in commerce, rather than a crusader devoted to destroying bigness for the sake of trust-busting. Indeed, we do not wish to destroy combinations which pass on savings to consumers through economical marketing methods or the efficiency of mass production. It is not size itself, but the creation of bottle necks and toll bridges in the distribution of a product which is unreasonable under the law. . . . We cannot exist in a machine age without combinations." [63]

However, it is true that mass production as applied to certain industries has raised the question of whether these industries should be operated on a competitive basis or not. They may still be competitive, despite the fact that the business is concentrated in a few giant members of the industry, as in the case of automobiles. But competition among corporate giants does not possess the same characteristics as does the common garden variety. Such industries belong in the twilight zone of borderline cases and require special attention. The anti-trust laws may be fully applicable, may be applicable to a modified degree or not at all.

Planning for the Competitive Group

Planning applied to small-unit, non-standardized industries is a difficult and costly process. It means an absorption of great numbers of local enterprises, each representing small investments, each especially adapted to local conditions, customs and prejudices. The absence of standardization or uniformity in business methods and product constitutes a serious obstacle to national planning. If an industry is run in accordance with a definite plan, a certain minimum amount of standardization is a necessary consequence, even though it results in an inferior product. Local conditions and customs probably can not be given the same consideration by a local unit of a nationally planned organization as by an independent local company, unconcerned with the national situation. Such individualistic features as personal service, style and fashion are likely to suffer and it should be noted here that in many industries of this competitive group these factors are important.

Aside from the aforementioned difficulties in planning for these industries, there is the fact that the problem of concentration is least acute in this sector. Although 35.4 percent of the national income in 1937 was received by this group, only one-third of the amount was secured by corporations. This means that two-thirds of the income of this group was obtained by individual proprietors or partnerships.[64] The giant corporation was rare in these industries as late as 1936 when, out of 396 corporations with assets of $100 million or more, only nine were in the industries making up most of this competitive group. Trade had six giant corporations, service, two and agriculture one.[65] It is therefore much more urgent to give attention first to the industries which are suffering from more severe attacks of concentration.

The "Opoly" Group

More than half a century ago arbitrary price control in an industry was considered a vicious, anti-social, monopolistic practice. It was argued that if a monopoly was deprived of its power to dominate, prices and production would rise and fall again with supply and demand. The Sherman Act was consequently enacted to wipe out monopolies then existing, prevent the rise of new ones, and thereby restore competitive conditions in industry.

Today many a large and important industry has the monopoly-like characteristics of non-competitive price and production policies and yet is not under the control of a monopoly corporation. In such industries, there are usually two or more giant corporations which, as a group, account for a considerable proportion of the total business. Among these giants there is a strange kind of competition which does not act as an automatic regulator of prices and production.

Much scholarly attention has been given to the unorthodox cases which cannot be labeled competitive or monopolistic. New theories have been spun by economists to fit these industries. Instead of just old-fashioned monopoly, we now have a variety of "opolies," duopoly, triopoly and oligopoly, depending on how many giant corporations share the power to dominate an industry. Theories of competition and monopoly have been cross-bred to give us theories of monopolistic competition, imperfect and impure competition.

These new theories are rather complicated but, in essence, they try to show that rigid prices and limited production are inherent in the economics of the duopolistic, triopolistic or oligopolistic industry and are not a result of any secret conspiracy between giant corporations. Consequently it is contended that the anti-trust laws really cannot remedy the situation because the corporations are neither monopolies nor conspiring to monopolize. How prices and production policies are determined in these industries may perhaps be understood best by examining a specific case, the automobile industry, which is one of the leading members of this group.

The Federal Trade Commission recently investigated the automobile industry and found that General Motors, Ford and Chrysler produced 89 per cent of the passenger cars sold in 1937. However, despite this concentration, the commission concluded in June, 1939, "among these three leading motor vehicle manufacturers, there prevails, apparently, a condition of active competition." Prices have been steadily reduced and cars steadily improved to the benefit of the public and the profit of the manufacturer.

Prices and prduction, however, have not been on a fully competitive basis. From 1929 to 1932, motor vehicle prices fell only 12 per cent, while production was reduced 74 per cent. In contrast, agriculture, a fully competitive industry, as has been pointed out, had a 56 per cent price decline and only a 1 per cent production drop. If there had been unlimited competition, when General Motors decided that it would not cut prices more than 12 per cent and limit its production accordingly, Ford and Chrysler would have cut prices a little more to obtain General Motors' lost business. The small price reduction and sharp curtailment of production show that the industry had adopted a substantially uniform policy and yet we have no reason to suspect that the management of the various corporations sat around a conference table to discuss and decide the price and production policies. We must look elsewhere for the explanation.

Advertising Helps Make Rigid Prices

Competition between producers of the same commodity is usually on the basis of price, the producer with the lowest price getting the business. Advertising has enabled the producer and seller to bombard the consumer with such a barrage of selling arguments that very frequently price is pushed into the background. Automobile advertising has very definitely made price a subordinate factor in influencing the prospective buyer's decision. Appearance and gadgets or engineering improvements are emphasized as the primary inducements, not price. The manufacturer, through press and radio, tries to convince the prospective customer that his car is better-looking, better-built and cheaper to operate than any other car in the same price class. If successful, the manufacturer has what economists call "differentiated" his product, which means that the prospective buyer will no longer compare prices because he "knows" from the enticing ads and the crooning radio that the upholstery, the new body lines and the big motor make this car "superior to all others" and that price cannot be used as a least common denominator to determine which car is a better value.

This form of advertising doesn't violate the anti-trust laws, yet it is a big step towards the nullification of competitive price safeguards. If a car manufacturer wants to increase his sales, he intensifies his advertising campaign and may or may not lower his price. The emphasis in any event is on convincing the customer that his car is superior, not cheaper, than the other cars in the field. Prices, consequently, are not so sensitive, because the manufacturer does not depend primarily on price changes to meet changing market conditions.

Why High Fixed Costs Result in High Rigid Prices

Insensitive or rigid automobile prices are due not merely to the effect of advertising, but also to the effect of the high fixed or overhead charges which the huge investment in plant and machinery entail. When fixed charges loom as large as they do in the automobile industry, the pressure to make drastic price reductions in order to maintain sales volume is much greater than in other industries, particularly during a depression. The major car manufacturers, however, are very much aware of each other's size and financial resources and consequently fear that, if one among them starts to make sharp price reductions, it will bring on a very costly price war. Furthermore, the industry claims that it is impossible to maintain sales volume during a depression no matter how drastic the price reductions. Each manufacturer, therefore, concludes that it would be safer and more profitable for him to maintain prices and cut down production, feeling confident that the other members of the industry would reach the same conclusion and adopt similar price and production policies. The automobile industry has thus achieved what every monopolist seeks: price and production control, without using the monopolistic devices of conspiracy and combination.

All "Opolies" Have Similar Price and Production Policies

These policies and conditions are not peculiar to the automobile industry alone. They characterize such basic and mass production industries as steel, meat packing, auto bodies and parts, electrical machinery, rubber tires, cigarettes, tin cans, rayon and farm machinery. The prices and production policies decided upon by the giants are quickly adopted by the smaller corporations in the industry for fear of extermination by the giants in any ruthless competitive battle. This phenomenon is called "price leadership." The giant corporations may vary in size from industry to industry but essentially all these "opoly" industries keep their prices rigid and high in depression, with a consequent sharp shrinkage of production.

These industries are the source of some of our most essential products and employ hundreds of thousands of our workers. Their policies compound the severity of our depressions. The more inflexible their prices, the less they can sell, the less they produce, the fewer they employ, the less can be bought at their rigid prices, and so on down the economic spiral. Custom-made theories may explain these policies, but they don't thereby become less anti-social and intolerable. The cost to society is far too great for us to stand by and merely observe these practices as novel economic phenomena. We must get down to cases and shape new controls, for, obviously, indiscriminate trust-busting or labelling them a new fashion in competition cannot solve the problem. Two factors make the problem a new one: (1) the power of advertising to "differentiate" the product of a particular make in the minds of the consumer has diminished considerably the importance of price as a buying guide and (2) the manufacturer's attitude that in times of distress his first and foremost duty is to earn as much as he can towards meeting his fixed charges. A satisfactory rehabilitation of these industries will depend largely on the measures taken to reshape these two forces which, though long in existence, never before were as powerful as they are today.

Higher Advertising Standards Essential

Advertising has long been considered the "free speech" of industry. Any attempt to prevent fraudulent advertising has invariably been characterized as an attack on the constitutional rights of the business man and corporations. The free speech guaranteed by the Bill of Rights hasn't been undermined by laws against libel, slander or inciting to race hatred. Immunity from public control cannot be granted advertising merely because business hypocritically and sanctimoniously cries for free press and free speech. The increased and intensified use of advertising has made it a very potent force in modern life, giving rise to new questions of what is legitimate and what is not.

Just because a corporation wants to "differentiate" its product and wipe price out of the consumer's mind, the question increasingly arises, "shall it have the right to use any method it chooses so long as it doesn't state flatly a patent falsehood?" Advertising has become such a clever propaganda machine that legislated standards of "truth in advertising" seem hopelessly inadequate and naive. Is it truthful advertising to use glamour girl pictures and testimonials to advertise motor cars and soap, to hail a superfluous gadget as the engineering achievement of the decade? Is it a legitimate business practice for a corporation to use our symphonic orchestras, swing bands, movie and stage stars, as radio advertising bait and then add the cost of such "free entertainment" to the price the public pays for its product? Can we afford, economically, the millions which this advertising costs us as consumers? The whole question of the functions of advertising and the limits to which it may properly go must be reexamined in the light of present day conditions. Mass production has necessarily meant increased standardization of products, reducing rather than increasing the actual differences between the product of one manufacturer and that of another. Yet it is these very highly mechanized mass production industries which are conducting the costliest and most extensive advertising campaigns to make their product appear individualized and distinctive to the consumer.

Proper advertising control does not necessarily mean bureaucratic censorship and stereotyping of all advertising. What needs to be done is the establishment and enforcement of modern standards which take into account the fact that, cumulatively, advertising is a coercive force to which the consumer succumbs sooner or later and not a passive "educational" agency which the buyer can take or ignore. When such standards have been established, fictitious product differentiation will be minimized and price will become a more influential buying guide and consequently more sensitive to market conditions. However, improvement of advertising methods is necessarily an indirect and long drawn out process of improving price and production policies. More fundamental and speedier results must be obtained and that can only come by changing the managerial standards of these giant corporations.

Shall the "Opolies" Be Privately or Publicly Controlled?

These "opoly" industries are so important and their policies have caused such great losses in production and wages that we cannot merely hope for more enlightened managements and wait indefinitely for the results. Each of these basic industries must be studied and recommendations made in accord with the conditions found. If they can be operated efficiently and economically on a truly competitive basis, the measures outlined in the preceding sections on competitive industry should be adopted. If, as many of the "opoly" industries claim, orthodox competition is no longer applicable, private control must carry the burden of proof that it can serve the public better than can public control.

Non-Competitive or Public Industries

As a nation we have been very reluctant to admit that some industries will serve the public best if organized on a non-competitive basis. When complaints against the railroads finally forced Congress to legislate some remedies, it set up an Interstate Commerce Commission in 1888 to regulate them and restore competition among them. It wasn't until after the World War that competition among railroads was officially recognized as uneconomic and inefficient.

The non-competitive character of the gas, electric and telephone companies were also finally recognized by law and even protected by local utility franchises. But these legalized private monopolies were subjected to state regulation and declared to be public utilities, in conformity with our philosophy that an industry which is not internally regulated by competition must be externally regulated by public agencies. All the rest of industry, it has been complacently assumed, is on a competitive basis and therefore does not require regulation.

Today there is a growing and important group of industries which is neither subjected to regulation as public utilities nor susceptible to the regulatory powers of competition. The giant corporations and "opoly" industries form the major element in this group. The other industries are those where competition has run amuck, as in the soft coal industry, causing great waste and suffering. Insofar as this group cannot function properly on a competitive basis, it should be classed with the public utilities. The question then becomes one of proper controls: whether or not government regulation or government ownership can bring about the desired basic changes in these industries. As a clue to what may be expected of government regulation, let us see how successful such regulation has been in the past.

Regulation

Government regulation, at best, is a negative policy which concerns itself with the enforcement of certain restraints on industry. Regulation should be limited to the prevention of specific wrongs which can be corrected without having to tinker constantly with basic management policies. The establishment and enforcement of minimum wages, maximum hours, factory sanitation standards, child labor prohibitions and similar minimum standards for *all* industry come within the scope of regulation. Government is and should be, in all these instances, purely negative in its intervention and should not assume or share the responsibilities of management of the affected industries.

When the correction of an industry's ills requires basic changes, government regulation, as we understand it, is not enough. Standing on the sidelines and applying government regulations may prevent an industry from doing the wrong things. Unfortunately, it doesn't necessarily follow that an industry, saved from its evil self, will automatically do the right thing.

The history of railroad and utility regulation proves that government intervention in this form is no guarantee of sound and progressive managerial policies. The land and other grants to the railroads by governmental bodies and the exclusive public franchise granted the utilities gave both groups exceptional financial advantages over ordinary private corporations. In addition their securities were made eligible for trust fund, insurance company, savings banks investment. Nevertheless, the railroads today are in a very precarious financial state and the holding company has been most damaging in the rail and utility fields. The establishment of TVA and similar utility agencies is government's admission that regulation has not succeeded in keeping the nation's utilities sound and progressive.

Although regulation has failed to keep railroads and public utilities healthy and alert to the public's needs, it is still being used to meet business problems. Price-fixing has been applied to the bituminous coal industry. It may be necessary as a temporary expedient, but it cannot provide the way out. If this essential industry is to be properly reorganized, there must be basic rehabilitation, not mere temporary relief. Complicated questions of labor policy, financial reorganization, conservation of coal deposits, mechanization and mine operation must be considered along with prices and production. If the soft coal mine operators or other groups directly affected cannot meet these problems then government must step in and assume responsibility for the industry's welfare. The coal industry would thus necessarily come under public control if the government is to have the power to set up and carry out its program of revitalization.

Milk supply is another private industry which is being "interfered" with more and more by government agencies. Cities have set up milk sheds which prevent the dairy industry beyond certain boundaries from selling its milk in the city. The public is providing for extensive inspection and regulation of cows, milk and pasteurization. Recently, some states have also engaged in price fixing.

With each new problem, new regulatory restrictions and procedure have been imposed. The milk industry is still considered private business and, despite all these public restrictions, is supposed to be competitive. A fresh appraisal of the milk distribution industry, however, would indicate that it is private only as to the profits and competitive only in those respects which hurt the public. The quality of the product is controlled and standardized by public agencies, and at times the price is set by the state. In such cases, competition exists only in the duplication of delivery systems which add unnecessarily to the price of milk. Negative government regulation of this essential industry is a cumbersome, costly and ineffective way of maintaining the city's milk supply system. There is no genuine excuse for private control of this public utility.

In general, from the railroads to the dairy industry, government regulation has failed adequately to safeguard the interest of the consumer because it has not induced these industries to give the public better service at less cost. The negative controls of our traditional form of regulation have not proved satisfactory and more positive public controls must be substituted in these regulated industries.

Public Control Not Necessarily Government Ownership

The transfer of a non-competitive industry from private to public control does not necessarily mean that the management of the enterprise will be handled by a centralized government bureau. There is no reason why the milk and soft coal industries should have the same type of public control. The machinery which is most suitable to the needs and peculiarities of a particular industry should be adopted. As a matter of fact, it would be very desirable to avoid great centralization of control of non-competitive industries in the bureaus of the Federal Government. Flexibility and democracy may be endangered if these bureaus become unwieldly in size and bloated with power.

Cooperatives may be able to provide the proper kind of public control in some industries, as in the case of milk supply. Dairy farmers at the producing end and city consumer cooperatives at the consuming end may organize joint cooperatives to provide the city's milk supply. This type of organization is democratic, since its structure is relatively simple with the management directly responsible to those most vitally affected: the dairy farmers and the milk consumers. The simplicity of structure and the local or regional nature of the milk cooperative also add to its flexibility and adaptability to changing conditions. It may be advantageous to form a loose federation of the regional milk cooperatives to take care of such matters as research and to facilitate the proper transfer of the milk surplus from one area to another. The regional cooperatives should however, have, complete autonomy. They should not be governed by a centralized agency.

This form of public control not only does not mean government ownership but actually should result in a decrease of government intervention and regulation. Price-fixing by the state would no longer be necessary, since the price-paying consumer, along with the price-receiving farmer, would have a voice in determining the price to the consumer. Other governmental regulations pertaining to milk standards would probably not have to be so rigorous as when the industry was private owned, since it is to the cooperative members' advantage to maintain good standards.

Cooperatives may also constitute a most satisfactory form of public control in other non-competitive industries. As a rule, the application of consumers cooperatives is likely to be limited to distribution industries. Thus, for example, cooperatives have been successful in the extension of rural electrification and the distribution of electricity to farms and rural communities. Perhaps other food industries, dealing with meat, etc., if upon study they are classed as requiring public control, may best be organized as producer-consumer cooperatives. Cooperatives, however, are subject to certain limitations and have thus far made little headway in most countries in basic industries which (1) require relatively large investments in plant and equipment per unit of production; which (2) produce semi-finished goods rather than the finished products which are finally consumed by the general public; and (3) which operate in a national or international market.

The Public Corporation

In industries where public control is to be established but where the cooperative form of organization cannot be satisfactorily applied, government will have to assume the task of organization. Government in business has been under heavy attack for a long time and, although much of the opposition has been hypocritical and narrow, some of the common objections should be met. The principle indictments against government enterprises are that they are (1) corrupt, (2) inefficient and inflexible, (3) uneconomic and costly, and (4) a menace to democratic government. In answer to these indictments, it may be said that graft and politics are not inevitable and often can be laid at the doors of the very business men who complain loudest about them. Daniel Hoan's graft-free administration of Milwaukee from 1916 to 1940 and the sharp reduction of corruption in New York City under the LaGuardia Administration are evidence that government enterprise does not have to be predominantly corrupt. It should also be noted that politics and graft are found not merely in government but also in private business. Corruption, therefore, cannot be used as a legitimate argument against public, as opposed to private enterprise.

It cannot be denied that such evils as inefficiency, bureaucracy and inflexibility are found in public industry, as they are in private industry. These evils, however, are not the result of public control, but rather of bigness and must be fought under both private and public operation. There is considerable difference of opinion as to the degree to which all these tendencies characterize government enterprise as opposed to private control, but we cannot deny their reality. Nor can we deny that the case for government in business will be improved by their eradication or minimization.

The government bureau and department provide the only means by which "free" services such as parks and highways can be provided. The non-competitive industries, where government control must replace private ownership, do not provide this kind of service. They must sell their products or service for a price. The corporate form can be retained in such cases, even if the industry becomes a government enterprise, because there is a functional relation between the income and outgo of such enterprises.

In recent years, considerable success has attended the development of these public corporations, as, for example, in the case of the Port of New York Authority. Bitter enemies of public ownership and government in business have been forced to admit that the Port of New York Authority is a successful and efficient enterprise, even when judged by the business man's standards of dollars and cents.[66] The public corporation, where it can be adopted, is frequently superior to the government bureau or department because it allows for greater autonomy, more flexibility, more direct administrative and financial responsibility and financial independence. It often provides greater incentives towards economy and efficiency and entails less centralization of power in government.

The pattern of public corporation can be adapted to the special characteristics of an industry. Some industries must be organized to function on a national basis, as, for example, the railroad and coal industries. In such cases, the public corporation will have to be set up on a national scale by the Federal Government and its management selected by the Federal Government. Other industries which serve a region or locality could be organized in regional public corporations similar to the Port of New York Authority, the management to be jointly chosen by the state governments in the particular region. In every instance, the function and scope of the most economic unit in a non-competitive industry should determine whether the public corporation should be organized as a nation-wide, regional, state-wide or city-wide enterprise, with the right to select the management similarly allocated.

Financially, the public corporation should be required to be on its own, provided this does not interfere with its proper functioning. These enterprises should be soundly financed. If they were, their securities would be accepted in the financial markets on their own merits and guarantees by governments would not be necessary. Under such conditions, the transformation of a private corporation into a public one would not require any increase in government debt. It would be merely a case of one corporation (a public one) issuing its securities to supplant those of an existing corporation (the private one). This happens every day in ordinary business circles. If the old private corporation were overcapitalized in view of its present condition, the new corporation would issue its securities in a smaller amount, so as to equal the estimated present value of the enterprise. The sounder the recapitalization, the greater the likelihood that the new public corporation would be financially independent.

The financial independence of a public corporation gives its management greater powers over its policies, and more freedom for the exercise of its initiative in the development of new services and the contraction or expansion of old ones. Except for the selection of its management, the public corporation can be as autonomous as any private corporation. When the management has this autonomy it can also be held directly responsible for the success or failure of the public corporation. The necessity for maintaining its financial independence supplies the public corporation with all the incentives in behalf of economy and efficiency prevailing in private enterprise.

The selection of management in a public corporation may be far superior to that prevailing in private enterprise. The largest private corporations are managed, as has already been noted, by a priesthood of business men, the choice of neither the investors, the workers nor the customers of the enterprise. Though there is an historical explanation, there is no justification for this method of management selection. In contrast, the management of the public corporation could be selected by the governments which created it or indirectly by the general public which is the immediate or ultimate customer of the public corporation. A certain segment of the directorate should also be chosen by the government from a panel submitted by the employees of the public corporations. In general, the policy should be to have represented in the management the various groups most vitally affected by the operations of the public corporation. The managements of functionally related public corporations might also to some extent be interlocked. The public method of selecting the government of an industry is democratic and has a broad functional base, while the private method is autocratic and functionally never represents the workers or consumers.

Another advantage of a practical nature is that, under the corporate form, with the transfer of industry from private to public, no basic changes in function or structure are necessitated below the management levels, except that the employees of the public corporation will have a voice in management. As to security holders, there is only a meaningless legalistic difference between the bondholder of a public corporation and the stockholder of a large private corporation, since both groups are passive investors. The operating mechanism of the industry remains substantially the same, with only the management undergoing basic changes.

The public corporation combines the advantages of the corporate form of organization by way of responsibility, flexibility and efficiency and the democratic advantages of having a management indirectly chosen by the people it serves. It does not centralize power and control any more than is made necessary by the particular industry's technology and avoids an indiscriminate concentration of power in a central government. The public corporation can, therefore, be a means of publicly controlling an industry without loss of balance, flexibility or democracy in our economy, *provided* we have a truly democratic form of government.

Democratic Government Essential To Any Program

None of the proposals thus far made can help solve our problems of concentration, depression and unemployment unless there prevails a democratic government in power. Economic and political democracy are Siamese twins. Neither can live and thrive without the help of the other. No economic program can produce a healthy and balanced economy if administered by an autocratic or totalitarian government. The more government concerns itself with economic problems, the more essential it becomes that the people take an active interest in government and keep it democratic in practice as well as in textbooks. Consequently, the most important prerequisite to any program of action is the maintenance of democratic government in the nation, state and local community.

If government is to formulate plans for basic economic rehabilitation and carry out those plans, it must not only be democratic but also adequately staffed with qualified personnel. Permanent organizations must be set up, not temporary Congressional committees, in order to establish efficient and effective agencies to which competent people will be attracted and retained. Furthermore, these agencies should be free from patronage and not vary with the political tinge of the Administration in power. No trick legislation can establish such conditions. Extension of civil service can be of some aid but far more essential is increased public interest in the affairs of government and an insistent public demand that such standards be adopted and maintained in government service.

The general public, no less than the business man, looks upon government with a suspicious eye. The antiquated notion of government being necessarily a compound of tax collectors, policemen, politicians, graft and inefficiency still persists. We have always paid a heavy price for our cynical attitudes towards government but, with the tremendous expansion of the scope of government, we can no longer afford that silly luxury. There must be a greater participation in government by the public, because government policy is affecting its welfare more deeply and in more ways from year to year.

In the nostalgic past, the common man "minded his own business" and let politicians run the government. Government touched his life at relatively rare intervals and he didn't think it was worth his time to see to it that these functions were properly performed. Today he cannot mind his own business unless he reclaims his government from the professional politician and becomes to some extent an amateur politician in defense of his own interests.

Modern technology is responsible to a large extent for the necessity of increased public intervention in industry. The self-same technology which reduces the time it takes to perform a certain process, also increases the difficulties of keeping that industry operating in the public interest, which frequently means another job, directly or indirectly, for government. Some of the time "saved" by the modern citizen by virtue of the improved process must be reinvested to see that the new technology helps rather than hurts society. We cannot escape these responsibilities of our highly complex form of society if we are to reap its benefits.

Fact-Finding Is Not Enough

The survey of private concentration of economic power has shown that the problem affects all industry, some branches more markedly than others. It is also evident that the maladjustments are becoming more pronounced and there is no reason to believe that industry will or can cure itself. When we deal with the question as to what should be done about this problem, we find no one solution applicable, because of the great variety of conditions to be met.

Industrial democracy seems to provide the most satisfactory answer if we are to have a flexible and democratic economy without any substantial sacrifice of the benefits of modern technology. Neither competition nor total planning should be enthroned as king. Instead, there should be established, for the present at least, a healthy, thriving balance of powers as among competitive private business, labor unions, cooperatives, public corporations and democratic government. At some future date a simpler and less heterogeneous economic pattern may be preferable, but at present it seems wiser to put our trust in a complex of interacting forces.

To carry out a program of industrial democracy, we must make a thorough survey of business, determine which industries can be competitive, which non-competitive, where and what varieties of public corporation shall be set up. A considerable amount of research and fact-finding will have to be done on some phases, comparatively little on others. A vast amount of data has already been and is being collected and analyzed by the Federal Trade Commission, by the Departments of Justice and Commerce, the National Resources Committee and the Temporary National Economic Committee.

A mountain of facts and scores of research projects will not solve the problem. Action is needed and needed now. Delay hasn't been due primarily to insufficient data but rather to lack of interest, courage and initiative. If we honestly meet our responsibilities and get down to doing something about our problems, we need not be delayed at all by lack of data. Already accumulated information is sufficient to enable us to make a start on many fronts.

During the last fifty years, time and again we have begged ourselves off from action by offering up as a sacrifice some fact-finding studies. It may ease our conscience, but it cannot cure our ills. If we want to have democracy politically and economically, if we want ever to climb out of the depression and obtain the benefits of modern industry, if we want to raise the living standards of large masses of our people to decent levels, we must take hold of our economic machine and reshape it now. We cannot go to sleep behind a haystack of facts.

FOOTNOTE REFERENCES

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11. See the Twentiety Century Fund, *Big Business, Its Growth and Place,* pp. 1-10, 16-19.
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13. U. S. Bureau of Internal Revenue, *Statistics of Income, 1936,* Part II, p. 31.
14. National Resources Committee, *op. cit.,* p. 104.
15. *Ibid.,* p. 100-1.
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19. National Resources Committee, *op. cit.,* p. 158.
20. *Ibid.,* p. 159.
21. *Ibid.,* p. 161.
22. *Ibid.,* pp. 314-15.
23. Based on an analysis of the directorships and offices held by the directors of A. T. & T., as reported in Poor's 1939 *Registry of Directors.*
24. TNEC, *op. cit.,* Part I, p. 230.
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28A. *Journal of Political Economy,* February 1938, p. 7.

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