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By LELAND REX ROBINSON

Essential in defense efforts against totalitarian war is the mobilization of industry, resources, and manpower, regardless of cost or of peacetime consequences. "He who hesitates is lost"; we must act, later thinking out the economic implications of our acts and if possible taking steps in time to redirect, forestall, and mitigate. When fire breaks loose, nothing counts but bringing the apparatus into play; however, as the flames begin to yield, there is breathing space to plan more effective salvage, even to ruminate on better location of hydrants or the shape of rebuilding to come.

A universal conflagration is now upon us, and it is not surprising that only the arsonists have had time and foresight to scheme their new order. The rest of us are on the defensive, with our "wave of the future," our dreams of reviving the past, or our ringside seats at the great spectacle where we (like the English playwright-producer who from a nearby "pub" ruefully watched his theater go up in smoke) "enjoy a glass of beer at our own fireside." The beginning of wisdom is to acknowledge that the past is gone forever, that the present is a feverish interlude, and that clear outlines of what lies ahead are not yet discernible, much less the "kitchen recipes of the future." Progress in wisdom comes from taking stock of the present situation so that our policies may be neither those of desperation nor those of drift.

It is not merely a salvage and rebuilding job that confronts us, for new economic and social forces have been let loose which must be made to serve us if they are not to destroy us. Not only is the superstructure burning, but an earthquake is undermining the foundations—has, in fact, been undermining them from long before the outbreak of World War II. The most cursory glance at what has been taken for granted in such expressions as "normal price relationships," "economic stability," and "business as usual" will show the extent of our wishful thinking. Nostalgic longing for more settled conditions of bygone days is a tribute to our hearts rather than our heads. Like Thomas Wolfe's hero, we "can't go home again."

Foundations of "Normal Business"

For undergirding "normal business" as this is mirrored in our recollections of the twenties or, more accurately, of the first decade and a half of this century, were certain conditions as necessary to the functioning of healthy private enterprise as water is to the denizens of the goldfish bowl. These were little rationalized. Like Topsy, they were never born, "only jes' growed." They developed apace with business, both cause and result of the release of vast productive forces. These circumstances may be briefly summarized.

In the first place, government in general "set the rules of the game." Private enterprise "carried on." The fiscal needs of the state imposed no crushing burdens upon business. Even World War I, far short of our present totalitarian variety, permitted booms attended by soaring security prices, though increasingly the profits were ladled out to Mars. Rapid reduction in our Federal indebtedness during the decade of the twenties was accompanied by declining tax rates. "Planning" as a political function was little talked of, and government spending as a means of stabilizing employment was put down as rank heresy when the idea was given currency.
at all. A balanced budget was considered as essential for healthy government as for healthy industry and commerce. Government and private enterprise, each strong in its own right, each imposing certain restraints upon and giving support to the other, were generally though implicitly accepted as the two poles of democracy.

There follows from this a corollary of equal importance, namely, that political frontiers were not synonymous with economic barriers. In fact, some progress was being made in reduction of tariff penalties. On the whole, and particularly throughout the British Empire, considerable freedom existed in movement of men, capital and credit, goods and services across national boundaries. Nationalism in the nineteenth century had, in fact, helped the lifeblood flow of commerce by bringing into being larger political units (such as Bismarck's Germany and Cavour's Italy) which broke down provincial interference and set the stage for a wider economic polity. The independent coexistence of small and large countries was made possible by world markets. Upon them, as well, rested vigorous private enterprise.

More than mass markets was required, however, to bring about a sound expansion of peacetime industry. A third factor went along with these others. It was the rough balance of private savings (both corporate and individual) and of expenditures upon public goods and services that permitted sufficient flow of long- and short-term capital into business to lubricate the gears, to maintain the machinery at efficient working pitch, and to finance the extensions, the technological improvements, and the new industries which a dynamic economic life forever demands. This should be taken both literally and figuratively.

To put it in another way, productive energies were in part channeled into the building-up of capital ("producers') goods and equipment through the shunting of private savings into those investment uses which market demand, forecasts of consumer requirements, and the expectations and fears of bankers and business men demanded. Government intervened little if at all, save as its own comparatively modest requirements called for tax tapping of this stream of earnings and savings.

Financing requirements tended to become cumulative to the extent that inflow of new capital strengthened industry by better equipping it to supply promptly and at low unit costs the many varieties of goods and services called for in the markets, and thereby creating better credit risks. As a French aphorism puts it, *Bien manger fait l'appétit.* However, granted the availability of capital and the power of business to attract it, there had to be at work certain other, environmental, factors which urged on private enterprise to seek new funds. We may single out several of the more important of these as a fourth and final set of circumstances which made possible what is still often referred to as "business as usual."

These factors might be considered as much a part of the American people's patrimony as our unparalleled natural resources. They comprised the ingenuity and inventiveness which gave rise to epoch-making new industries, and so increased labor productivity that rising wages far outstripped costs of necessities and even of luxuries. They included also a rapid increase in population, both through natural means and by immigration. This continuing rise in population became accepted as a cornerstone of the edifice of American prosperity. It furnished skilled young workers available where and when needed. It offered more mouths to feed, more bodies to clothe and shelter. It acted potently to create markets for new industries. In brief, technological improvements brought more, rather than less, employment, not only because of population increase but also because of rising living standards. Industries making capital ("or producers') goods came to account for substantially half of the labor gainfully employed. Through them, saving of labor went hand in hand with creation of new demands.

**BUSINESS HEALTH UNDERMINED**

It is a very spotty picture, of course—this panorama of business which seemed a part of the "natural order" for so many Americans; but the point here is not to dwell upon its many obvious defects. Rather, we should remind ourselves while there is yet time, of the sapping to which have been exposed the foundations of this imposing measure of prosperity and progress that went along with the "good old days." Gearing of our national economy to the war effort distracts our attention from organic weaknesses as it piles Pelion upon Ossa in its demands for quick output. What will be the price of industrial demobilization? Can we hope to avoid disaster when war industries must be dismantled unless our plans for practical action take into account those first rules of business health which were so persistently violated prior to the outbreak of World War II?

That those rules were being violated, the briefest rehashing of the foregoing will bring into the clear, with little more than running comment called for. Creeping encroachments of government upon what had been the domains of private enterprise became the order of the day long before war's outbreak greatly speeded the substitution of political for market controls. Much of this regulation was necessary, and not a little of it overdue; nor is this the place to indulge in generalizations, as tempting as they are dangerous, about the relations of government and business. Two facts stand out, however.

One is that the economic efficiency of democratic countries, if not the very existence of democratic processes, was being threatened by seeming inability to adapt the machinery of government to the needs of a society in which wealth-getting and wealth-using activities were taking on increasingly complicated patterns. The longer the arm of government the more necessary that its mandates be clear, enforceable, and carried out by qualified civil servants. That the direct opposite has been too often true needs no arguing. Dictatorships in war and in peace partly obscure, partly postpone, partly solve these problems; but not permanently, for men, unlike machines, are not made of exchangeable parts.

As governments, no longer satisfied to call the tune, became intent upon dancing the jig themselves, their fiscal powers waxed accordingly. Taxes have been increasingly imposed for a variety of socio-economic purposes far removed from mere budget-balancing. Heavy deficits, first deplored, then tolerated as a necessary evil, have become accepted as a means of spurring industry when private purchasing power fails. So deeply did governments become involved in economic promotion, protectionism, and rivalries that frequent references occurred to the "politicalization" of business and trade in the years immediately preceding World War II.

"POLITICALIZATION" OF BUSINESS AND TRADE

This, then, is the second fact that emerges. Political boundaries were more and more taking on an economic significance in the thirties. Crossing of frontiers by men, goods, and capital was encouraged or restricted—mostly the latter—with politico-economic objectives rather than production and trade to the
fore. Nations owing heavily abroad on war debts or foreign borrowing, or because of import requirements in raw materials of industry or of war, desperately fought for the needed pounds, guilders, francs, and dollars. Their exports were subsidized and cheapened, but import barriers rose against them and remittances fell off drastically from the dwindling number of their emigrés. A rationalization of their own imports was the only apparent answer, and the war of quotas and exchange controls was on in earnest.

Here is why Germany and Italy considered themselves "have-not" nations while Belgium, the Scandinavian countries, the Netherlands, and Switzerland were not entered in that category. For the former, licking their wounds, dreaming of world power, and smarting for conquest, learned that it makes a difference in what currencies you have to buy, and that even peacetime markets are open for purchases only as they can be invaded by sales and in proportion thereto. Business in countries large and small, richly and poorly endowed, was suffering from this "politicalization" of international commerce and finance. Patterns of nineteenth- and early twentieth-century world trade which enabled the lion and the lamb among the nations to lie down together were disrupted almost beyond recognition.

Humpty Dumpty has had a great fall, and it is not likely that the pieces can be put together again in our day. The nationalism of the past three decades has made hard the way of the business man and the merchant, and the victory of "free peoples" in World War II will end in economic chaos or disaster if productive energies released from war can find no ready means of mutually advantageous exchange throughout broadening trade areas irrespective of political cleavages. It is not a question of liberty or death, but of liberty and death unless national sovereignty will yield to economic necessities. The alternative is Hitler's "new order." Whether this somber truth makes out of predatory war the "Wave of the Future" or the "Wave of the Past," let us make the most of it!

**Financial Malnutrition**

We may leave this cosmic speculation, however, and consider the third set of factors which underlay "business as usual" but which were being sabotaged in the decade before World War II. This was the flow of savings into those multiplying forms of investment which expanding private enterprise offered and without which it would quickly have lost its momentum. Two disturbing things were happening. By the late twenties a very high proportion of security issues was of the refunding and financial promoting variety. Even in those halcyon days of finance, business was obtaining less additional capital for extensions, improvements, and new ventures than a healthy condition demanded. Our souls were lost in an orgy of security speculation, for savings and credit were used to push up already inflated quotations of "blue ribbon" stocks rather than to buy machinery, erect factories, and employ workers.

When the cold gray days of depression set in, current individual savings declined by half and corporate savings all but disappeared. Long-neglected capital goods industries lay prostrate, their workers in unemployment queues. Disbursements in excess of receipts and write-downs of properties shrank the aggregate assets of nonfinancial corporations in the United States between 1929 and 1936 by three-quarters as much as the present Federal debt. Their working capital suffered. Financial pernicious anemia had set in.

So a considerable degree of financial malnutrition of business was becoming evident, even before "the days of the locust." From the early thirties, deficit financing by the Federal Government took the stage. Corporate offerings for constructive purposes became negligible. To the sorry fact that private enterprise had lost its nerve was added a second weakening development. The huge gaps between government intake and outgo were being more and more bridged by the purchase of Treasury obligations on the part of banks, life insurance companies, and other corporate custodians of the people's funds. Savings of individuals no longer flowed, as once, into security markets. In fact, institutional investors were financing the government, and the government (to the tune of billions of dollars) was increasingly financing ailing business.

**War and Postwar Finance**

Unless these ominous trends are reversed, industrial mobilization after this war will run us into financial collapse. For the time being, of course, business will be amply supplied with working capital. Direct government controls are to be expected over the use of the Nation's savings. Capital issues will be approved only as they contribute to the defense efforts. Federal corporations and credit agencies will supply funds for extension and improvement in vital industries whenever private sources fail. Machine tool, railway equipment, shipbuilding, and other capital-goods industries may actually find themselves in the position of a starving man threatened with sudden overfeeding.

The diagnosis points to the remedy. The people must increasingly finance their government directly by purchasing its debts and by paying taxes upon far wider income and sales bases. Institutional investors must develop their lending and investing muscles in directly coming to grips with the capital needs of private enterprise. Individuals must get the feel of stocks as well as bonds—not government bonds alone—and place their savings at the service of industry by personal action as well as through corporate intermediaries.

Why? So that increased dividends, higher wages, and better employment in war's production boom will not divert labor and raw materials to the supply of swollen consumer demands. So that slack in declining defense activities can later be taken up in supplying civilian wants deferred only for the emergency. So that there may be no sudden drop in ordinary consumer expenditures when peace comes—even an increase, perhaps. So that individuals will have set by something, in the form of postal savings and of government savings bonds, which can be drawn upon for future purchases and investments. So that the Federal Treasury will not feel too much of a pinch when its obligations are sold or when postal savings are in due course drawn upon to realize cash. So that business can look with confidence to dependable markets for its stocks and bonds when this period of government wet-nursing is ended.

Too much emphasis cannot be placed upon the need for equity financing now and particularly in the postwar readjustment period. Accumulation of top-heavy fixed charges, whether for depreciation and obsolescence or for debt service, is as dangerous as it is plausible in boom times like the present. It is gratifying that Federal tax authorities may now accept depreciation over five-year or shorter periods in defense contracts, and that business sees the wisdom of complete write-offs in so short a span, not only to reduce income levies but to avoid "holding the bag" when defense orders terminate. The sounder financial position which such drastic write-offs assure will encourage the placing of
common stocks, and this in turn will further reinforce capacity to meet the strains of industrial demobilization.

At the same time, no stock boom is to be expected in this war. Rising Federal levies on corporate income and excess profits will serve to this, if taxes on the income and capital profits of individuals have not already done so. It is fortunate that a boom in stock prices is unlikely to develop in World War II, for market gyrations from 1916 to 1921 have too well shown us how quickly “war brides” are divorced from their high estate when the day of reckoning comes. At the same time, the genuine threat of mounting prices will exert a steady pressure for investment-holding of the more stable equities. Similarly, we may expect no pyramiding of land values such as was experienced in World War I, with its aftermath of mortgage defaults and agricultural unrest. But by the same token there is no reason why in postwar years the bottom should fall out of rural and urban real estate markets.

PROSPECT FOR FREE ENTERPRISE

One further problem must be tackled. What reasons have we for thinking that business can go ahead under its own steam when war demands slacken, even granting a ready market for its securities and a financial strength enabling it to seek capital? A fourth set of factors making possible our one-time “business as usual” was earlier described as technological advances opening up new economies, uses, and industries, and a rising population to man these industries and to buy their products. Have these foundations also been undermined?

Plenty of people tell us so. Our economy is “mature,” it is said. Declining rates of population increase, further confirmed by the 1940 census, will bring us to a stationary level by 1980 or thereabouts. Our “frontiers” are gone. The government can never let go; it must always dip into the stream of savings, and spur industry on with its spendings.

Much that is circulated along these lines is the rankest nonsense. In fact, there is nothing to discourage us in a realistic appraisal of the present outlook for basic new processes and industries, nor need we fear that declining rates of population increase will spell stagnation. Only the unimaginative can refer to the “passing of the frontier.” Industrial and agricultural chemistry would give the lie to this, even if Grand Coulee did not do so. Those who doubt that we are on the threshold of new inventions establishing new industries should read the report on Our National Resources prepared by the National Resources Planning Board. Surely the burden of proof rests upon anyone who holds that inventions there singled out as having significant social effects “now or in the future” are less promising of major industrial developments than a half-dozen or more burgeoning innovations of 1900. Nearly ten thousand more patents were issued in 1939 than in 1920, and the number exceeded that of 1930.

Even more reassuring is the balance between what the late Lord Stamp called “labor savers” and “demand creators” among those inventions giving business its “go ahead” signals. Technological improvements will displace labor very little, if at all, provided lower costs are translated into lower prices and new products and services taking the fancy of consumers tempt them to spend what they may have saved elsewhere. The photoelectric cell should aid demand for automobile trailers, and so on. If a nation’s economy rests upon the production of bare necessities in food, clothing, and shelter, a rapid rise in population is essential for quickening activity. When higher living standards are its fruits, prosperity may be enjoyed with a stationary or declining population. It is not necessary that the river be wider for more water to be carried; it may be deeper or the current swifter.

A final example will suffice. It is well known that in the formidable backlog of demands for capital improvements none is more urgent than adequate housing facilities for the American people. Prefabricated housing seems likely to come into its own in providing living accommodations for armies of industrial workers among whom mobility is important. Prefabrication, whether of the whole house or of kitchen units, bathrooms, or wall insulation, brings new comforts as well as time- and labor-saving. Is it not possible that in the vanguard of peacetime industrial revival will appear a “new deal” in American housing? In any case, this would ring true to American traditions and experience.

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