

Theodore V. Houser

*Chairman of the  
Board of Directors,  
Sears, Roebuck  
and Company*

## **Today's Challenge to People's Capitalism**

IT HAS BECOME the fashion to have centennial celebrations here in the Midwest. I have just come from Chicago where the YMCA is having a great centennial rally this weekend. These anniversaries are significant benchmarks in the development of this part of the country. Probably nowhere in the world has 100 years wrought such a transformation as in this area. We have gone from a wilderness to great metropolitan cities, from raw prairie to the most productive and efficient farms of the world.

I need not say how honored I feel in talking to an audience assembled in honor of our great institution, which serves so well to illustrate the dynamic character of the Midwest. It seems to me to be one of those few times when one is justified in looking back in order to size up why and how we have come to our present state of development and also to look forward, if possible, to see if there are any threats to the continuation of this onward march.

It is difficult to find a word which adequately describes the social-economic system of our country. It is capitalistic, yes, but very different — even fundamentally different — from capitalism as practiced in other parts of the world. As a matter of fact, about three years ago President Eisenhower asked the Advertising Council to develop a term that would adequately describe the distinctive type of social and economic organization of this country. The name ultimately adopted was “People’s Capitalism.” Since the selection of that name, the Council has been actively engaged in explaining and publicizing “People’s Capitalism” both in this country and abroad.

Let us first define the elements of “People’s Capitalism” that differentiate it from capitalism as practiced in other parts of the world, primarily in Europe. I would list the following as being the essentials of the American system:

1. Wages as high and hours of work as low as productivity will permit, resulting in the development of the worker as a consumer.
2. The application of scientific research, engineering, managerial skill, and capital investment to increase productivity per hour of work.
3. Competitive society with the consumer free to buy what he will, where he will, and with industry competing for the customer’s favor through the production of goods that are more desirable or less costly.
4. Recognition of growth as a national characteristic and the realization that this growth comes from better plants, better machines, better-trained workers, better products.
5. Essential to this concept of growth is the principle of modest profits with increasing turnover of capital rather than a limitation of volume through large unit profits.

This latter point implies the obsolescence of equipment before it is worn out, if more efficient and productive equipment is available, and this in turn requires a constant re-investment of a sizable portion of profits to provide for expansion and improvement.

Our American system had its genesis in the industrial revolution that started abroad, principally in England, in the latter half of the 18th century. In retrospect it seems extremely significant to our development that the political revolution that established us as a nation occurred at a time when a fundamental economic revolution was also taking place. This unique combination of events has had a profound effect on the direction and pace of our development.

You will recall that the spinning jenny was invented in 1764. The invention of the steam engine and particularly its adaptation to rotary power, the power loom, discoveries that permitted coal instead of charcoal to be used in the making of steel — all of these events occurring in a 35-year period — had a revolutionary effect on the advanced nations of the day. They were significant because of the greatly increased productivity which followed, and because of the flexibility which they permitted in the location of producing units.

Now let's look at some of the effects of the industrial revolution. Turning first to Europe where the effects were first felt, we find that the new economic order was based on the production of goods by workers employed at a minimum wage for the longest possible hours of work and that this was made possible by a continuing over-supply of applicants. There was a control of marketing through a system of cartels, based upon collective industry agreement as to production volume and division of markets. Equipment was

used for the longest possible time, limited by the physical life of machines and buildings. Profits were largely withdrawn from the operation for the direct benefit of the owners. It was reasoned that capital for additional plants could only come from a limited owner class, and thus a rationalization was devised for a large profit margin.

The industrial revolution provided a new way to create wealth and was an economic revolution, not a social revolution, for the social organization was a direct carry-over from that which had existed before. The relationship between owner and worker was the same as had existed between the military officer and the common soldier or between the person of title and the commoner. These great revolutionary inventions did not touch with improvement the lives of the great masses of people.

The best witness to the spectacular ability of the industrial revolution to produce new wealth without benefiting the masses is the criticisms and attacks directed at the newly emerging capitalistic system as it was being practiced in Europe. For the masses who worked long hours in shops and factories at great danger to health and life itself, one could seriously question whether they were not better off in their former simple, close-to-the-earth manner of living. Let's take a brief look at what some of the observers of this social order had to say.

Adam Smith, the patron saint of capitalism, wrote in 1776: "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable." Smith went on to say: "Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labor above their actual rate. . . . We seldom, indeed, hear of this combination,

because it is the usual, and one might say, the natural state of things which nobody ever hears of. Masters too sometimes enter into particular combinations to sink the wages of labor even below this rate."

Some 70 years later in 1845, Friedrich Engels, in drawing up his bill of particulars against capitalism could still say, in commenting on the English economic scene: "The great towns are chiefly inhabited by working people. . . . These workers have no property whatsoever of their own and live wholly upon wages, which usually go from hand to mouth. Society. . . does not trouble itself about them; leaves them to care for themselves and their families, yet supplies them no means of doing this in an efficient and permanent manner. . . the human being, the worker is regarded in manufacture as a piece of capital for the use of which the manufacturer pays interest in the form of wages."

Other commentators, while critical of the system as it then operated, were more conscious of the possibilities for a better life that it offered. Thus an early French economist, Jean Charles de Sismondi, wrote in 1819: "The immediate effect of machinery is to throw some of the workers out of employment, to increase the competition of others, and so to lower the wages of all. This results in diminished consumption and a slackening of demand. . . ."

". . . It is not the perfection of machinery that is the real calamity, but the unjust distribution of the goods produced. The more we are able to increase the quantity of goods produced with a given quantity of labor, the more we ought to increase our comforts or our leisure. . . ." and, ". . . To increase the sale of the produce of industry and labor of man, it is not the income of the rich but the income of the poor that must be increased. It is their wages that

must be increased, for the poor are the only purchasers who can add greatly to the extent of the market."

Robert Owen, a remarkable genius of early English industry, was even more perceptive, seeing both the problem and the solution. He said: "It is the want of a more profitable market that alone checks the successful and otherwise beneficial industry of the working classes. The markets of the world are created solely by the remuneration allowed by the industry of the working classes, and those markets are more or less extended and profitable in proportion as these classes are well or ill remunerated for this labor. But the existing arrangements of society will not permit the laborer to be remunerated for his industry, and in consequence all markets fail."

And finally John Stuart Mill, who made a vital separation between the ability of the new economy to produce wealth and the distribution of that wealth. He saw that the proper combination of capital, labor, and land would produce wealth in any setting, but that the distribution of such wealth was not an economic matter but a social matter. He foresaw the possibilities of the unprecedented productivity of industry. "Hitherto it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being. They have enabled a greater population to live the same life of drudgery and imprisonment and an increased number of manufacturers and others to make fortunes. They have increased the comforts of the middle classes. But they have not yet begun to effect those great changes in human destiny, which it is in their nature and in their futurity to accomplish."

This then was the European scene at the time this country came into being. Important inventions were avail-

able to us on which to build an industrial base. We had a continent to be settled. We had rich natural resources of a type in demand by the world of the day. The task of building roads and later railroads, communication systems, and a banking system faced the nation and contributed to a psychology of growth and expansion and individual opportunity. We had built into our very political structure a regard for the rights of the individual unique in all history. We must remember that the history of mankind is in large part the story of man's struggle to be free of the caprice, the power, and authority of the individual tyrant, despot, or dictator. The majority had struggled for recognition and had achieved it, but it remained for this country to establish the rights of the individual or a minority against the power of the majority in certain specific areas of human conduct. Thus, politically, there was recognition of the rights and dignity of the individual imbedded in our national psychology from the beginning. From a social standpoint it was accepted that no individual person had to stay in the social and economic level in which he was born. The American society was one in which the individual, through ability and willingness to work, could advance himself. While at any given moment there were definable economic levels comparable to those found in other nations, these levels were constantly changing so far as their composition by specific individuals was concerned. This country had the political, social, and economic climate for a departure from the accepted pattern of the industrial age as it developed abroad.

However, despite the completely different potential, in the main our older industrial areas copied European principles of capitalism which remained pretty much the order

of the day up to the latter part of the 19th century. By this time the pattern of economic development and its impact on the social order of the day were such as to cause concern in many quarters. Even the Catholic Church, which today takes such an unqualified stand against communism, was at that time equally positive in condemning capitalism as practiced. In 1891 Pope Leo XIII, in the Encyclical *Rerum Novarum*, recognized and summarized the conflict of the times. He wrote: "We clearly see, and on this there is general agreement, that some opportune remedy must be found quickly for the misery and wretchedness pressing so unjustly on the majority of the working class. . . a small number of very rich men have been able to lay upon the teeming masses of the laboring poor a yoke little better than that of slavery itself. There is no fear that solicitude. . . by the administration . . . will be harmful to any interest; on the contrary, it will be to the advantage of all; for it cannot but be good for the commonwealth to shield from misery those on whom it so largely depends for the things that it needs."

The question was thus posed, how could the faults of capitalism be corrected while preserving the system? In the Encyclical, the Pope went on to say: "Justice. . . demands that the interest of the working classes should be carefully watched over by the administration, so that they who contribute so largely to the advantage of the community may themselves share in the benefits which they create — that being housed, clothed and bodily fit, they may find their life less hard and more endurable. It follows that whatever shall appear to prove conducive to the well-being of those who work should obtain favorable consideration. There is no fear that solicitude of this kind will be harmful to any inter-



est; on the contrary, it will be to the advantage of all; for it cannot but be good for the commonwealth to shield from misery those on whom it so largely depends for the things that it needs."

In this country it was obvious by 1890 that the growth of business and industrial enterprises and their economic power had reached a point where some type of regulation was necessary. This was done through the mechanism of the Sherman Anti-Trust Act, which has come to have a greater influence on the American industrial system than any other legislation. This law provided that "every contract, combination in the form of trust—or conspiracy in restraint of trade. . . is declared illegal." And that "every person who shall monopolize—or combine or conspire with any other person—to monopolize any parts of the trade or commerce—shall be deemed guilty of a misdemeanor."

The Sherman Act was supplemented in 1914 by two other acts, the Clayton Act and the Federal Trade Commission Act. The Clayton Act further defined the original intent of the Sherman Act and prohibited the organization of cartels, division of markets, and rigging of prices on the basic premise that if competition were free from restraint, more of the fruits of labor would accrue in the form of lower prices to the benefit of the consumer. The Federal Trade Commission Act stated that "unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce are declared unlawful."

As a result of these legislative acts, by 1914 we had created a political climate for economic growth that was destined to give this growth a character completely different from that of foreign economics. But while the political basis existed for change of direction, the issue of wages, prices,

and profits remained unanswered and the conventional view was still held that, while the standard of living of the masses could be improved through a better wage system, the result would be a losing of the profits that were essential to provide the capital for further economic growth and facilities required by the nation.

However, in 1914 there occurred a major economic break-through. Henry Ford announced a revolutionary eight-hour working day and a \$5.00 a day basic wage. Even if we judge this effort only in terms of dollars and cents it was revolutionary, for it occurred at a time when the average industrial worker was paid \$11.00 for a 49-hour work week. But its real significance lies in the fact that Mr. Ford had caught the vision of what applied science and engineering could do in increasing productivity, thus opening the way for a new concept of wages and working hours which would eventually make the worker group a greater consumer of its own product. This change in economic concept, plus directives establishing the political ground rules have resulted in the development of the basic principles that distinguish "People's Capitalism" so markedly from the European capitalistic order.

What has been the impact, on individuals and society as a whole, of this new concept of capitalism operating in a unique political climate? Using 1914 as a base year, since that year marks the application of Henry Ford's theories and the beginning of "People's Capitalism," the average wage level of the industrial worker has gone up 544 percent, while the prices of those things comprising his standard of living have increased only 180 percent. While this tremendous increase in wage levels was occurring, the average work week went from 48 hours to 41 hours.

This dramatic increase in wage levels has given the

average worker a high degree of discretionary buying power which has not only been used to improve the workers' standard of living, but also supports a wide range of cultural, social, educational, and religious activities. The number of those engaged in the arts has increased 200 percent, although the total civilian work force has gone up only 40 percent. About \$2 billion are contributed annually by the public and corporations to health and welfare agencies. Another \$5 billion accumulates each year for unemployment compensation, hospital and medical care when needed, and for pension purposes. There has been a 300 percent increase in the number of charity, welfare, and religious workers. The number of hospital beds in proportion to the population has doubled, and hospitals are staffed by three times the proportionate number of nurses. Church membership has increased more than 120 percent, compared to a population increase of 55 percent; colleges, too, have had some share of the greater wealth in the hands of the public and business, as is indicated by a 400 percent increase in the number of faculty members, and this increase was made necessary in part by the fact that 34 percent of the college age group attend college now as compared to 18 percent in 1914.

Let's mention some of the more important situations which face us now but which were relatively unimportant before the last war.

First, the so-called cold war and all of its implications. It absorbs  $10\frac{1}{2}$  percent of our economic effort and has reached, since 1946, as high as 14 percent. It reaches into the fabric of our whole economic system. Can we carry this on and yet preserve, in all respects, the political, social, and business practices of peace time?

During a war we expect greater centralization of author-

ity, over many aspects of life, by government. Democratic processes are too slow when urgent needs must be met. We are keeping the normal peacetime balance of power between the three branches of government, when undoubtedly there are demands to be met which require a faster tempo than is permitted by legislative processes. At the same time, there is no war, with its actual operations of success or failure, to serve as a check on more complete executive autonomy. One does not see how Congress can keep up with science and technology, as applied to defense material, or with the everchanging political and economic affairs all over the world. At the same time, if it gives the Executive Department and the Defense Department rather complete autonomy to carry on as they see best, as would be done in actual war, the whole operation becomes shrouded in secrecy and there are no war incidents to tell how well the job is being done. This whole defense problem projects the federal government into questions of education, scientific research, school construction, foreign commerce, grants-in-aid, and atomic development as well as complex relations with industry.

This problem presents a real dilemma and has a direct bearing on our whole society. In fact, if we are to have defense expenditures at the present level for many years, as many people believe, then we must think through the best way of organizing for such purpose. On one hand we want to have the efficiency of direct competent authority, but on the other hand we want to preserve to the fullest possible extent the fundamentals of a free but competitive society.

The concept of a free competitive society which the wise leaders of the past had in mind when our Constitution, Bill of Rights, and later when our anti-trust laws were formed,

assumed competition between sellers in a market or competition between buyers in a market. The charter of a constitutional government expressed in its original documents provided rights to property, a wide scope of individual liberty, and the three essentials for freedom in any economy, namely, free movement of people, property, and money. When referring to competition of buyers or sellers they were not thinking primarily of individual persons. The corporation, as a form of organized effort, was the medium by which the production and distribution of necessary goods and services was to be performed. Competition was, per se, competition between one group of people comprising owner and workers against another similar group. The anti-trust laws sought primarily to maintain conditions wherein corporations competed with each other for the customers' favor.

Against this background let us look at the development of industry-wide union organizations. First of all, this new element has created a horizontal division in many of these vertical groups contending with each other. On one hand, in each corporation is a group with some understanding and appreciation of what is involved in a commercial competitive situation. They understand the importance of product design, of continuing research and engineering development, of financial controls, and of marketing, sales policies, advertising, distributor and dealer relations, personnel and public relations, competitive costs, and efficient plant equipment. On the other hand there is the group of organized workers, belonging to a union which often embraces the workers of the competing firms in that industry, where leaders have little appreciation or interest in the problems of effective competition. The worker is subjected to opposing loyalties. As a mature individual possessing judgment

and a sense of values, he undoubtedly takes some pride in the success of the enterprise in which he plays a part. At the same time he is constantly exhorted to put his loyalty to a class above that to his employer.

A new force has entered the picture which seeks only the average and collective improvement of a large number of organized workers. The older concept of economic classes whose composition changed as the more able moved on up in station and responsibility is being supplanted by a tendency toward a permanent stratification. The European capitalistic concept of fixed classes is being re-created here, year by year, by those who seek the improvement of workers rather than by those in power seeking to hold the worker down. The worker looks to his union representative for economic improvement rather than to his own individual initiative and ability. Seniority and job classification alone distinguish one worker from the next. One cannot help but wonder if something is not in the process of disappearing from the American scene which heretofore played such a great part in our national development, i.e., individual ambition, application to the job, self-reliance, and the desire to get ahead.

I am not saying that the organization of labor is under question. Human nature being what it is, quarrels and dissension regarding the division of property and money are not uncommon among people — families, partnerships, and heirs, as well as employee-employer groups. The record is full of many employers who have treated their employees fairly and generously even though unorganized. On the other hand there are the many cases where lack of consideration and fairness would be the rule without the economic strength of employee organization. It is only when the indus-

try-wide union, with its membership made up of the workers of competing members of the industry, faces a single firm that we have a situation that is a marked change from that contemplated when our anti-monopoly laws were written. It seems inescapable that some changes regarding industry-wide unions must be made if we are to retain the essentials of the capitalistic system which have brought us so far.

"People's Capitalism" is also faced with the problem of assimilating and incorporating into its functioning the incredible scientific break-throughs on many fronts. While the press dramatizes satellites and atomic power applications, everyday intricate equipment, often electronically controlled, is being installed in industry. Automation is no different from what has occurred all during our economic history of applying scientific and engineering talent toward increasing productive output per hour. Its development has grown out of technological advances in a number of areas necessary to cope with the scale of modern industrial operations. We hear much about the effect of automation on opportunities for employment. I think the experience of the telephone company best illustrates what actually happens in practice. The dial telephone is probably a more extreme form of automation than is likely to occur in industry in general. Instead of throwing operators out of jobs, their number is now nearly doubled. By the same token, however, if the present volume of telephone traffic had to be handled by manual switchboards, I am told that even if every able-bodied adult woman in this country were drafted to serve as a telephone operator, there still would not be enough operators to take care of today's volume of calls.

What is the effect of all this on the social and economic organization of the future? For one thing, it seems inevi-

table to put a premium on size. It takes sheer size to carry on the research and experimental work for such developments, and it takes size to make efficient use of such productive but costly equipment. It will have to be recognized that the large corporation is essential to an efficient and successful industrial economy. Political attacks on large corporations, simply because they are large, should not be popular. Only their conduct should be questioned, and conduct is not a product of size. How else are we to compete with Russian state corporations, with their unlimited funds for science and research, unless we use to the fullest the great institutions which have grown and prospered as a result of the free choice of American citizens when purchasing their products.

Corporate management will more and more come to be in the hands of those who sense the quasi-public character of the large corporations in this new setting. As the number and size of larger corporations increase, their requirements in the way of specialized services also increase, and the opportunity for the small individual businessman may be more in the way of serving them and less in direct competition of product. This is a trend already in effect.

However, in reviewing what has happened since the war, we seem to run into at least one major hurdle. I refer to the subject of inflation, which has been bothering thoughtful people despite the events of the last few months and the short-term outlook. That there is such a thing is illustrated by the fact that over-all prices have increased since 1947 at an annual rate of 23 percent. This means the value of the dollar has shrunk accordingly. What new forces are at work, in the system we are discussing, to cause this problem? Since the war the government here and elsewhere has become in-



creasingly aware of its power to influence economic conditions. For example, we have the Full Employment Act of 1946, which places the government directly in a position of responsibility for so-called full employment. Another new ingredient is the growth in size and economic power of organized labor.

Inflation is normally thought to be intimately associated with the supply of money and the amount of civilian goods produced. During the inflation, which occurred here and elsewhere as a result of the war effort, the supply of money increased, because of war costs, much faster than did the amount of goods for civilian purchase. Since the war, however, the amount of goods available for purchase has increased faster than the money supply. For instance, during this same period the total physical output of goods and services on a constant basis increased 44 percent, but the total money supply increased only 23 percent, and yet prices increased 26 percent. Therefore we must look to other causes for this persistent pressure toward higher prices.

One cause is the wage policy of organized labor and its power to enforce such a policy. In part, this power stems from the high level of defense expenditures which created, up to a few months ago, an extremely tight labor market through the diversion of many people to the armed forces, defense plants, and government employment in general. But in addition, unlike the earlier days of "People's Capitalism" when the benefits of technology were divided between the worker in the form of higher wages, the consumer in terms of lower prices, and the owner in terms of profits, we have a wage policy which diverts to labor alone the full benefit of increased productive ability.

It seems axiomatic that the only way in which a group

of people, such as comprises our total economy, can have more goods each is to have more goods produced and in greater proportion than the growth of population. Modern science has shown us how this can be done. If wage level increases were not in excess of over-all productive improvement, the basic laws which created our competitive society would insure that competition would prevent prices from rising over any extended term. But if certain industries where applied technology does result in a constant increase in productivity are required by coercion to increase wage rates in excess of such improvement in individual output, then that industry must perforce require higher prices to offset the excessive wage increases. At a time of full employment, the example set by wage changes in these key industries is carried over to others where comparable improvement is not possible and, despite the intense competition, there is an irresistible trend to higher prices for their products, be they tangible goods or services.

There is an unequal distribution of the effect of inflation, with the workers in key industries not feeling the effects at all because wages are kept ahead of prices, and the brunt being borne to an increasing degree by those industries where wages lag further and further behind prices, until we finally come to those people on pensions or annuities who feel the full weight of this inequity. Thus the efforts of the wise statesmen, who turned our capitalism into a highly competitive system, are nullified by the power of labor in so far as equitable distribution to all people is concerned.

In the long run, not even union members, whose leadership year after year gains for them wage increases well in excess of what is warranted by increased productivity, are immune to the effects of inflation. Despite the fact that their

current income keeps them ahead of inflation, the funds that are set aside for retirement benefits are being subjected to drastic erosion from inflation. For example, I mentioned earlier that the U. S. dollar has depreciated at an average rate of 2.3 percent per year since 1947; however, during 1956 and 1957 the consumer price index rose 6 percent. At this rate we are experiencing a doubling of prices every 19 years. If our present trend continues, money now being paid into pension funds by workers in the median age bracket of our work force will have lost 50 percent of its value by the time those workers retire. If an effort is made to maintain present wages, and at the same time increase payments to pension funds to gain protection from the effect of inflation, then the process of deterioration will simply be speeded up.

Government intervention when a downturn in economic activity occurs is another inflationary force to be considered. It should be recognized that in adjustment periods such as 1949 and 1954, as well as the one we are now experiencing, time is necessary to bring about a correction of the excesses which developed during the preceeding boom. While government should continue to pursue vigorously its accepted role of fiscal and monetary management, including money and credit supply, it must be kept in mind that natural forces are working to restore the balance. In 1954 these forces were recognized as being adequate and were given time to prove their effectiveness. Government actions in times such as these have a direct bearing on inflation. Each period of acceleration in business activity naturally leads to a strengthening of prices. If natural forces are not permitted to correct previous price rises because of government intervention through expenditures for non-economic purposes, then the next upswing must start from a higher price base. Thus the stage is set for even greater inflation as the economy moves

into the succeeding period of growth and a further strengthening of prices.

It is certainly not appropriate in this talk to define the application of these observations to the current recessionary period. It unquestionably differs from the two periods of recession since the war in that this time it follows a great capital goods boom in contrast to the build-up of excessive inventories as previously. I merely counsel against precipitate actions by government in the way of direct expenditures which might not be considered advisable under normal conditions. At the same time, actions of a monetary and fiscal character, which will accelerate the normal forces of adjustment, are appropriate and in fact vital. It is important to recognize that our progress has never followed the pattern of an ascending straight line, nor has it been due to the idea that somewhere and somehow government must immediately correct any deviation.

Thus a new array of forces, which have not existed before, are affecting what we have called "People's Capitalism." The system has amazing vitality — it has withstood the tendency to substitute government direction for individual initiative during the '30's. During the '40's it provided equipment necessary for the war effort, and since the war has compiled a tremendous record of expansion, whether measured by living standards or defense standards. While we have a tradition of change and adjustment, the changes which occur should be measured against principles which are unchanging, and chief among these I would name that greatest asset of all, individual freedom and initiative. If new concepts and new forces which are introduced into our economy and society are judged by their effect on individual freedom and initiative, then these important principles can be as great a safeguard for our future as they have been for our past.