GOVERNMENT USE OF THE MACHINE IN WAR

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AN ADDRESS
BEFORE THE
ACADEMY OF POLITICAL SCIENCE
AT ITS
ANNUAL MEETING ON
"AMERICAN INDUSTRY IN A WAR OF MACHINES"
NOVEMBER 12, 1941

NEW YORK
PUBLISHED BY THE
ACADEMY OF POLITICAL SCIENCE
1942
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I

T is not gracious to quarrel with the topic of the Annual Meeting, but machines deserve a word in their defense. This is not a war of machines, because no machine that I ever saw was stupid enough to make war; it participates only as the slave of men whose power is greater than their wisdom, whose ingenuity runs beyond their morals.

I do not make this point for rhetorical effect, but to recall our minds from subservience to phrases. The machine does not dominate this age. Men and men’s ideas, men and men’s ambitions, passions, strengths and weaknesses dominate this, as every other age. The monster which wreaked vengeance on Frankenstein was the product of Mrs. Shelley’s imagination, and the robot of R. U. R. never existed. The machine is never dominant; man is in control unless terror or stupidity destroys his capacity to function rationally—or to function at all.

We should never deceive ourselves, therefore, that an arsenal of democracy can win a war. Airplanes, tanks, guns are inert; they have neither courage, nor initiative, nor will; they know nothing of blood, sweat, and tears. All the qualities that make for victory are the exclusive possession of men.

Even if machines could win the war, they could not win the peace. The four freedoms—freedom of speech and religion, freedom from want and fear—are all alien to their nature. Peace, like victory, can be achieved only through men’s courage, imagination, idealism—and now comes a sour note, a measure, at least, of consistency.

The indispensable premise of both victory and peace, the necessary prologue to the four freedoms must be daily fidelity to those concepts of justice and that equal protection of the laws which are essential to domestic freedom. Procedures at home
must accord with promises abroad. Legislative irresponsibility or unequal protection of the laws is concrete evidence of lack of imagination, of lack of courage, of lack of consistency; it plants the seeds of doubt whether peace can ever come. The only evidence that we can cope with the problems of the post-war world is to be found in mastery of the present job—exhibiting from day to day, maturing from day to day, those attributes of freedom we would like to see everywhere in the world.

Government should organize to exploit the machine, but I must remind you that government did not create the machine age. Indeed applications of the machine to government activities lag far behind industrial use. Prolific in paper work, bureaucracy accepted the typewriter long after it was widely utilized in private business. It has adopted the telegram so wholeheartedly that there are many government officers who will never write a letter if a telegram will do. The post office is a government monopoly; yet in all its long history not a single significant invention for the common benefit of mankind has come from that department. It has tardily adopted the mechanical devices laid upon its threshold. But as a soil in which ideas for machines or methods of economy and efficiency can germinate, government has proved sterile ground.

That historical fact should never be forgotten. The strengths—and the wealth—of the machine age are the creation of scientists and inventors, of engineers and managers, of artisans and workmen, of men ready to risk their capital and expend their energies. The triumphs are those of private enterprise. Political action can cut off silk but it cannot create nylon.

The machine-made wealth of the world makes possible government upon the scale we know. The social service state could not survive without the machine. For the government to exhibit hostility to the machine age, therefore, is literally to kill the goose that lays the golden egg.

Historically, too much regulation has proved an evil. During the mercantilist age, governments controlled production and trade in great detail. The purpose was to increase national wealth. In practice, however, invention was hampered; the standard of living was depressed and the state left bankrupt. It was not until such controls were swept away that the industrial revolution greatly multiplied wealth.
The characteristic achievement of the machine age is growing wealth for the workers. There have always been great disparities of wealth, but in other economies labor could never have the slaves of the lamp, the slaves of the motor, the magic carpet of communication. Increased production and improved transportation have banished famine and brought a measure of security from want unknown where the machine has not been developed. If governments, for political purposes, had not obstructed the flow of goods and services over their boundaries, the world would be nearer freedom from want.

Sometimes we pity the monotony of the worker who goes to the factory for eight hours in his car equipped with radio, who works under healthful conditions, with safety devices, who goes home to a warm, light, and well-cared-for house and then to the movies. We speak of the deadly monotony of his labor—as though the shoemaker who inherited his trade from his father and cobbled throughout a long life had variety—as though the peasant plowing with a crooked stick had a less humdrum existence.

By taking a romantic view of labor in the past and a sordid view of working conditions today, borrowing our technique from some of the artists who cannot view the scene except from the angle of the garbage pail, we have distorted our perspective. The machine age has done much not only to lighten the load of the laborer but to bring interest, variety and recreation into his life. The central fact is not that some have millions of dollars, but that millions have comforts and services—the explicit wealth of the machine age.

Not only has it given men better houses, better food, better clothing, but it is committed to the intensive continuance of that program. By its inherent structure, expanding production, a descending curve of prices, and ever broader distribution are essential. If freedom from want does not make headway everywhere in the world, the machine age is doomed. For it produces wealth—the real wealth of stoves and mowers and radios and cars and plows which no man can hoard, but men everywhere can use. That wealth of the common man, that freedom from want, government with all its power cannot achieve. It is
the product of the energies, wills, imaginations and skills of individuals.

To sum up the argument thus far: government did not and could not create the machine age; it is dependent upon it; however political action may short-circuit its benefits or destroy it.

These facts now come to sharp focus as the machine age is put at the service of government for war. Public officers acquire new powers and wield instruments of terrible force. By way of compensation they must also accept the responsibility of organizing for victory.

They must seek to understand this vast and complex machine, and not heedlessly throw monkey wrenches into moving parts. Our common safety requires them to accept that obligation. It is not only the money of the millionaire that government takes; it is about to take the car, the stove, the plow, the radio of the common man. By diverting productive energies to destruction, by pouring wealth into the sea and plowing it into battlefields, the government, as Vice President Wallace has indicated, is reducing the standard of living of the common man. It is, by so much, defeating the presuppositions of the machine age; it is losing the substance of social gains made available by the machine. If by poor organization or inefficiency, if by carelessness or waste, if by arrogance or bad temper, if by partisanship or patronage that sacrifice is made needlessly great, it is an assault upon two of the freedoms we desire everywhere in the world—freedom from want and freedom from fear.

As the Vice President addressed Mr. and Mrs. Average Citizen and called upon them for sacrifice, I would like to make the same plea to Mr. Average Bureaucrat.

This war upon which we have embarked is great beyond calculation. It may go on for five years more, or longer. No man knows. At best we shall pour into destructive purposes enough wealth to have brought food, clothing and housing to the one third who have been called underprivileged. Every failure of government to avoid extravagance and waste means more drudgery for the housewife, fewer comforts for the family. It expands the number of the underprivileged.

Public officers, therefore, must accept an obligation to show efficiency as great as that of the production line, to make savings
comparable with those of industry where by-products are created from waste, to exhibit ingenuity like that which has wrought miracles in American laboratories.

I am going to suggest, very briefly, five ways in which the government has not yet made clear that it is ready to accept these obligations and organize to take full advantage of the machine in its war effort.

First, destructive extravagance exists right now. Expenditures in aid of the unemployed grow even when unemployment shrinks. Though the farmers' income has more than doubled since 1934, direct federal subsidies to farmers have tripled in the same period. Now there is protest at any ceiling on agricultural prices and efforts are being made to freeze the stocks of grain and cotton held by the government, yet there is no assurance whatever that subsidies to farmers will not be increased again. Although the whole youth situation has changed since the N. Y. A. and C. C. C. were set up, their appropriations have been hardy perennials, growing in size in inverse ratio to the emergency—this despite the fact that representatives of public schools have warned we are heading toward a permanent federal system of education competing with the public school systems for funds, staff and students. Though public works are one of the important ways to counteract depression, now that the depression is over, the forthcoming Rivers and Harbors bill will be perhaps the greatest in history; it has 230 projects and requires 40 per cent higher appropriations than the bill in 1935; it includes major projects which compete with the defense effort; one of the largest would have the collateral effect of further disturbing our exchange problem with Canada and increasing war costs.

Depression devices should be eliminated. Nondefense spending should be cut. Of course it means bureaucratic sacrifice, but not so great as that required of citizens. No bureau is ever decently buried even when dead; it is just coordinated. Government publicity offices proliferate in the face of a paper shortage. Now we are to have an Office of Facts and Figures to coordinate all existing offices of figments and fancies. Saving is the first duty of Mr. Average Bureaucrat. No beginning has yet been made.
Second, the tax muddle makes extravagance more destructive. John L. Sullivan, Assistant Secretary of the Treasury, summed it up briefly: “The present situation—involving double taxation, confusion, service duplication, inconvenience to taxpayers, and much interflow of funds between the various governments—operates against the public welfare.” Contrition of heart should be accompanied by an act of faith. We have been promised tax reform so long and so often that it is farcical. The present tax structure is not adapted to getting the most from the machine age in war. The Secretary of the Treasury tells us a committee has been appointed!

The third duty of government is to mitigate the danger of inflation through reform of its own procedures. We know from long experience that violent price fluctuations affect production adversely; rapid advances and rapid declines both throw the machine age out of gear. Yet in the face of the largest stock of money in our history, the government stubbornly keeps upon the statute books laws of a grossly inflationary nature, and directly calculated to defeat our war effort.

Bitter experience with the greenback fallacies after the Civil War should be convincing evidence that they do not belong in the machine age. Yet no move is made to repeal the three billion dollar greenback authorization which hangs like a cloud over our economic structure. The bimetallic basis for currency was fully explored in the nineteenth century, yet the statute providing for a bimetallic currency remains unrepealed. Laws for the purchase of silver and gold at prices above the world market, and policies to implement those follies, are kept in operation. They were adopted as measures of inflation, under the alias of reflation. They remain inflationary while the President of the United States correctly says, “Inflationary price rises and increases in the cost of living are today threatening to undermine our defense effort.”

If ever there was an age which ought to realize that wealth lies in production, in the resources which are the basis of production, in the machines which turn out goods, in managerial skill, in craftsmanship, and in the will to use them, surely this should be that age. Money magic and fiscal foolishness should be laid aside and confidence reposed in realities instead of phan-
If the government really wants all-out production, it should remove from the machine age the outright menace of financial flimflam. Hitler himself could devise no trick which would so quickly defeat one of our central purposes. Let government purge its own policy of inflationary threats; then it can impose onerous controls upon citizens—as it must—with consistency and good conscience. Operating the inflation pump with the right hand while opening the deflation valve with the left is not organization for victory; it is sheer demoralization. The teaching about not letting the left hand know what the right hand doeth had reference to giving alms; it is not an endorsement of inconsistent legislation.

I give you a fourth evidence that the government has not organized to utilize the machine age. Though "equity money is dynamic and debt money is static", government is hostile to enterprise capital. In its sixth annual report the Securities and Exchange Commission pays lip service to equity financing: "A reasonable capital structure calls for a substantial amount of common stock equity both as a protective cushion for the bonds and preferred stock and to prevent temporary declines in earnings from resulting in receiverships."

That is a sound statement of policy. How well does it match the facts? Let us look at public utilities, since there is a shortage of electric power, and they are most subject to regulation. From a report of the Public Utilities Division of the Securities and Exchange Commission, we get a picture of public utilities financing during the six years, 1935 through 1940. The financing there recorded is $5,880,824,432. Of this total, bonds and notes accounted for approximately 95.1 per cent, preferred stocks for 4.7 per cent, and common stocks for .2 of one per cent. Two tenths of one per cent does not look like knee-action cushioning!

Today debt capital of the strongest corporations will yield only from 2 to 3 per cent, yet bonds are avidly oversubscribed by a starved market. On the other hand, equities of like corporations, which at present prices yield from 5 to 10 per cent, linger in the doldrums. The mere notice recently that two very strong companies were issuing additional stock sent their market prices tumbling.
Why? Among other things because of government policies. Because of its own dependence upon debt financing, government keeps interest down to minimize its own payments. Because government increases the risks of enterprise while keeping down the rates of money, business is driven to debt financing. Government has financed about 96 per cent of new defense production, practically all by the debt method. Tax laws are cunningly devised to obstruct stock issues; Commissioner Edmund Burke, Jr., of the Securities and Exchange Commission, recently said, "The present provisions of the Revenue Act would appear to be a strong deterrent to equity financing" despite the fact that "purchases of new issues of equity securities . . . on a larger scale than we have seen them during the last decade are essential to our free enterprise economy."

The American public in the past has shown itself willing to accept the hazards of business. But investors quail before the hostility of government; they are daunted by the complicated and redundant demands of bureaucracy, by tax laws that no one is so foolish as to defend; they dread the quixotism of political expediency. Venture capital is founded upon the idea of an economic adventure. It shies at political adventure.

Regulations by their complexity, slowness, and other factors make prompt and adequate financing through equity capital practically impossible, though an S. E. C. commissioner says, "Today, more than at any time in our history, it is important that it flow freely"! If at their inception the railroads or the telephone had been subjected to the same bumbling, officious and bureaucratic control that has bedeviled television, they would never have gotten started. Small ventures and pioneering enterprises have been especially hard hit. If regulation prevents risk, it also prevents growth. Overregulation gives assurance that we shall enter the aftermath of the war with an economic structure devoid of shock absorbers and with a maximum of vulnerability.

The dominant government attitude is an unconscious reflection of the "mature economy" theory. But if we really have a mature economy, we are already defeated. Organizing for victory becomes a sterile phrase, for defense production cannot be stepped up to the degree which victory requires. The con-
cept that our economy is decadent is an echo of the Nazis and Communists; that is their thesis. It is contrary to fact. Half the products—mark this well—half the products of many corporations in the United States are post-depression developments. Thousands more are in the pilot stage; millions are still in laboratories or in fertile minds. If we desire freedom from want in the post-war world, we must turn the Rivers and Harbors bill into clearing the channels for productive ideas that are crowding for realization.

The absence of new equity issues is a Gallup poll which is all but unanimous. It reflects opinion that government policy is hostile to an essential technique of finance for the machine age. That is not organizing for victory.

The disastrous policy regarding new financing is paralleled by regulation which weakens the market for existing equities. The machine age has never functioned efficiently without an active and strong security market. In the Security and Exchange Act of 1934 "sudden and unreasonable fluctuations of security prices" were recognized as creating acute problems for the federal government. The Act sought a more stable market.

In practice the market under the Act is progressively less stable. The sale of fewer shares, and a smaller per cent of the total shares, produces a sharper change in prices than ever before. No more decisive proof of instability could be imagined.

Moreover, the market under that Act is progressively less active. It is not only less active than in the twenties, but less active than in any decade since the machine age flowered. The share turnover in the first nine months of 1941 was only 46 per cent of the volume in the same period in 1935, and 69 per cent of the volume in a like period of 1940. Defense activity, being too heavily debt financed, is scarcely reflected. So the market is progressively thinner and more vulnerable.

No "mature economy" accounts for this condition. England has an economy more nearly "mature" than ours, and certainly is in greater immediate danger. Yet after the fall of France the prices of industrial stocks declined nearly two and a half times as much on the New York market as on the London market. That was not unique: international crises in 1938 and 1939 saw the same kind of reaction. It was not because of the vola-
tile temperament of Americans or the phlegmatic reactions of the British, but reflected regulation so intent upon preventing wrongdoing that it obstructs right-doing, so much concerned with evils of the past that it is not adequately concerned with the necessities of the present or the demands of the future.

Incidentally, the unstable market meant that when British holdings in this country were liquidated, they sold for several hundred million dollars less than they would have done in an active, orderly market. That difference is now being levied upon the taxpayers of the United States under Lend-Lease appropriations. The government, in other words, by unduly distorting normal operations, does not protect the public interest but lays a needless burden upon it.

The security markets remind me of a college friend who was to throw the hammer in a track meet. Because he was nervous he ate only a raw egg for breakfast. When the pains of hunger gat hold upon him, he thought he had indigestion, so he went to the drugstore for some medicine. The clerk gave him pepsin. He solemnly drank the mixture, then asked, "Is that good for my indigestion?" The clerk said "Yes"; whereupon the boy replied, "Give me another glass." The clerk threw him out. Possibly if the Securities and Exchange Commission would turn its pepsin pipeline over to Mr. Ickes to run oil into New York, there might be some relief from pains both real and fancied.

The stock market is another Gallup poll of great significance; it says in unmistakable language that not only the large investor but the small investor regard the government as hostile to business enterprise. The large investor takes to bonds; the small investor has two alternatives. Either he spends for goods and brings inflation one step nearer, or he puts money into savings banks and life insurance, which by law have been virtually excluded from the equity market and confined to the debt market. Thus the more the government drives small investors into life insurance or savings, the worse the investment situation becomes. The essential saving of the machine age, risk capital, has been frightened away by the government.

Without being a pessimist and regarding the post-war period in terms of an "inevitable collapse", even the most optimistic person must grant that there will be a period of severe readjust-
A tough and resilient economy will be needed—one capable of rapid and reasonably smooth readjustment.

The facts regarding new equities and those regarding the thinness and brittleness of the security market all reflect, not a growing resiliency, but a declining capacity for rapid and smooth readjustment. One of the central problems of post-war planning, of which we hear so much and see so little, is procedures which will restore strength and fluidity to the shock absorbers of the machine age. As one S. E. C. commissioner says, "We have plenty of capital... but it cannot do us much good unless it flows freely." You cannot organize for victory by disorganizing the financing of business.

There is a fifth way in which government has not organized to utilize the machine for victory. The machine makes labor not less important, but more. This is reflected in the assertion of the Office of Production Management that "the interruption of work by strikes or slowdowns is the greatest help the aggressors can get in these days when matériel on the battlefield is everything." "Everything" is a large word—and perhaps the British and the Russians think that there have to be some men there with the machines—but even discounting it somewhat, one would expect to find clear definitions of responsibility and explicit statements of policy. The realities are quite different.

Administratively, there is division of responsibility between the Department of Labor, the National Labor Relations Board, the National Defense Mediation Board, and the Office of Production Management. To put it mildly, there are distracting conflicts of authority and foggy definitions of power.

Without being in the slightest degree personal, the Labor Department does not enjoy full public confidence; the Labor Relations Board was long internally chaotic and is still controlled by an intentionally partisan law; the Defense Mediation Board lacks either the courage to announce a general policy or the insight and clarity of mind to develop one; and the Office of Production Management, by the explicit public testimony of its co-administrator, yielded to "irresponsible elements". When you unroll that blueprint, it does not look precisely like a design for industrial production in which "matériel on the battlefield is everything."
It is the obligation of government to act without fear or favor. On the labor issue government has acted with both fear and favor. Within the space of a single week we saw the government caught on both horns of its dilemma, first fearing to exercise its powers under the law and then being all but impotent in the coal strike because it had abdicated power by law.

Among our war aims, and they are magnificent, is freedom from fear—everywhere in the world. The Atlantic Charter in its eight points looks forward to joining with Britain in policing the world. Yet recently, on the testimony of a responsible official, the government abandoned its normal procedures in fear of "irresponsible elements". We cannot hope to police the world if our own police power is impotent before potential lawbreakers. Having just learned the hard way that we cannot escape war by running away from it (and I have been for the repeal of the Neutrality Act since the day before it was adopted), it ought not to be necessary to discover afresh that we cannot avoid domestic "chaos" by running away.

It is not disputed that the leading labor statute frankly abandons one basic principle of our constitutional system—the principle of equality before the law. Under the Wagner Act the management of enterprise and the management of labor—not the laborer but the management of labor—are treated wholly differently.

The machine age requires the cooperation of many different agencies. Raw materials, parts, finishes are all specialties; only in union is their strength. We now have the spectacle of government-protected labor unions boycotting other government-protected labor unions who wear a different old school tie or use a different grip. Thus the strong or the strategically located unions can force the smaller groups to lose their identity or surrender their existence, and also break up the productive process by boycott. It is all perfectly legal, but gives evidence that the government is not organized for the machine age.

Under interpretations of law by the Supreme Court of the United States, a union can legally conspire to prevent the use of more efficient methods of production and defeat the explicit presupposition of the machine age. Painting, for example,
may have to be done by old methods, spread by hand with a brush of a certain size. That is only one illustration; other methods of efficient production are effectively prohibited by privileged bodies operating under legislative sanction. The ostensible purpose is to protect the workman in his job; but the real effect is to raise costs. The public is needlessly taxed to perpetuate inefficient methods, and fellow workmen are denied the fruits of the industrial revolution. When, under a stabilization agreement, or any other synonym for a quasimonopoly, public authority connives, even by inference, at retarding the use of efficient methods, is not government itself standing as a barrier to production, and at the precise moment when the greatest strain is put upon our productive capacity? The net effect is to reduce the standard of living. That is not the road to freedom from want.

The central difficulty comes from governmental misinterpretation of the machine age. Never before was unity at once so important and so readily available. Never before have hand and brain needed to work so closely together, nor have the fruits of that union been so rich. Never before was the interpenetration of interest so complete and the interplay of forces so powerful. Never in all history did the web of circumstance bind all men so closely together, and never did transportation give them such mobility and capacity to adapt themselves to current needs. Never did the educational process and the means of communication and enlightenment so fully lay before all men the realities.

Those are the facts the government should utilize for the organization of the machine age for victory. But by false definitions of class interest, by the unequal protection of the laws, and by conferring political favors upon small groups, government action has contributed to rifts in this essential solidarity. Hostility or favoritism to various groups for political purposes has impaired the unity that is not only desirable but necessary. Democracy cannot organize for victory by stimulating the false and divisive class consciousness of the Communists. Nor should it resort to the Nazi practice of the dominant leadership of the state. The task of democracy is to exploit the unity
which arises from mutual interests, common ideals, and integrated activity. The problem is to organize not only for victory but for the peace that follows. The program must involve re-orientation of political action, restoration of the equal protection of the laws, and realization of the unity and the wealth which the machine age makes possible. (Applause)