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ADDRESS

THE MENACE TO FREE ENTERPRISE

Prepared

For Delivery

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Before

American Political Science Association

Philadelphia, Pa.

December 29, 1937.

1:00 P. M.

As students of political science we must try to understand the philosophy of big business. Unfortunately, no acknowledged business leader has formulated its doctrine, or been its spokesman in the sense that Marx spoke for Socialism, Lenin for Communism, and Jefferson or Roosevelt for Democracy. Manifestos, such as those of the Manufacturers Association, like political platforms, are patchworks that do not add up to make a coherent philosophy. We can find the philosophy of big business only in its conduct, and in the editorials of those close to it who from day to day defend its conduct. Business adheres to an attitude rather than a doctrine.

Whatever systems the remote future may bring forth, there is no present alternative to so-called private capitalism motivated by hope of private profit. It has always been my belief that this generation would do better to get the best out of its existing system, rather than to urge theoretical systems that have no present foundations in our traditions, our loyalties or our institutions.

The only agency with the power to condition capitalism and industrialism to survive is the government. To this end I have supported, in general, the program of reform called the "New Deal," with far more doubts about its adequacy, than about its moderation. What can be the underlying, and probably unconscious, philosophy of big business to cause its bitter opposition to every reform in whatever shape it may be proposed, and its uncompromising opposition to those like myself who suggest reforms, with the motive of placing business on a firmer, sounder financed and more honest basis of operation?

The other evening I ran upon a quotation from Goethe, in effect saying that the result of the conflict between powers in the middle ages was an "aristocratic anarchy." These words have stuck in my mind as a more accurate description of big business philosophy than President Cleveland's famous characterization of "the communism of combined wealth and capital."

Certain groups of big business have now seized upon a recession in our prosperity to "liquidate the New Deal" and to throw off all governmental interference with their incorporated initiative and their "aristocratic anarchy."

One of the most informed and disinterested observers of our business life is Sir Arthur Salter who in the Yale Review, among other reasons for the recession, gave a reason in these words:

"* * * there has been, among those who direct the movement of capital and the larger industries, an accumulating distrust and resentment of the policy of the Roosevelt Administration; this has been associated with political sentiments and magnified by everything that, in the American system, creates a mass psychology--so that in the result it is not fanciful to suggest that there is something like a 'strike of capital' against political action which it fears and dislikes."

If this is correct, the government faces a general strike --the first general strike in America--a strike against the government--a strike to coerce political action. This is a new manifestation of "aristocratic anarchy" for students of political science to ponder.

My own disposition would be to dismiss Sir Arthur's statement as a picturesque figure of speech except for two facts. First,

nowhere in the press that speaks for big business have I seen this analysis repudiated. Secondly, I have seen in Washington plenty of evidence that big business has seized this explanation of the recession as a cudgel to whack concessions out of government.

Now the things they strike against are the things that won the increasing majorities in 1932-1934 and 1936. Do these big business men think they can strike down a whole program that so held the hopes of men without arousing bitter resentment? The wrath of the people has been rising as they have seen Uncle Sam told to stick up his hands and deliver over his utilities program, his monopoly program, his social security program and his tax program to one or another interested group.

Big Business has come to exercise an increasing power over the standard of living, the wages and the economic opportunities of our people. It was estimated in 1929 that 200 non-financial corporations control 49 per cent of the assets of all such corporations. By 1933 the percentage had increased to 56 per cent. The 200 largest corporations were directed nominally by about 2000 individuals but actually the control resides in the hands of a much smaller number of men.

As long ago as 1910 this trend was described by Woodrow Wilson in prophetic words. He pointed out that in modern business we had the many men "who must do what they are told" and the few men who use the business machine as a whole "with an imperial freedom of design." It is this "imperial freedom of design" on the part of the great captains of industry that constitutes the "aristocratic anarchy" of this day.

Such men use their private power in a way which would be unthinkable of public power within the framework of democratic government. If the nation wanted to impose a sales tax of one half of 1 per cent and thereby decrease the people's purchasing power the question would be publicly debated for months. There would be long discussion and hearings, and those who took the action would be held accountable for it. On the other hand, if the great industries subject to monopoly control wish to raise their price 10 per cent there can be no public debate, there is no hearing of those who must pay the exaction, and those who lay the burden need acknowledge no public responsibility. Prices are no longer determined by the law of supply and demand in many basic industries.

This "imperial freedom of design" has developed dangerous and self-destructive tendencies. As Senator Borah, veteran fighter against monopoly said yesterday "I can see no recovery for a vast portion of our people so long as private interests fix prices, and thereby continue to deplete purchasing power." The Brookings Institution in its study of Income and Economic Progress, made the following diagnosis of the root of our troubles:

"Our diagnosis of the economic system has revealed that the way in which the income resulting from the nation's productive activities is divided among the various groups which comprise society, lies at the root of our difficulties. Inadequate buying power among the masses of the people appears to be fundamentally responsible for the persistent failure to call forth our productive power ***. Our problem is to determine whether the flow of the income stream can be so modified as to expand progressively the effective demand for goods."

Unless the government solve this problem, by law, it would not be solved at all. No one would expect a voluntary change in the division among groups of the stream of income. An intelligent capitalism would be begging government to go ahead with efforts to so modify this stream of income.

Various plans -- all experimental and all very imperfect -- have been tried. There was the attempt to put a floor under wages, to raise the lowest incomes to decent subsistence levels. There was collective bargaining to protect labor's purchasing power. There were surplus tax laws intended to force disgorging of hoarded corporation surpluses to the stockholders who would put them again into the stream of commerce. There were old age benefits to keep some buying power against the declining years and unemployment compensation so that the worker might continue to patronize the butcher, the baker and the merchant, even if temporarily laid off. There were efforts to curb the extortionate practice of public utility holding companies. And there was government spending -- relief expense -- made work -- to inject purchasing power in at the bottom and of course to take it off from the affluent by taxation.

Now this program may be called incomplete, or too comprehensive, or imperfect, or anything one may choose. On method, on choice of means to the end there is no final wisdom in Washington. But the elected representations do have to settle on the policy, and if we are to have democratic government we have to accept the majority's choice of method.

This democratic settlement of our method of dealing with these problems has been challenged only by concentrated wealth and its spokesmen.

The trend toward concentration is also a very real threat against the individual competitive system. This private socialism, this private regimentation of industry, finance and commerce if not stopped, is the forerunner of political socialism. Our democratic forms of government offer a periodical chance at election time to check and change political administrations. But there is no practical way on earth to regulate the economic oligarchy of autocratic, self-constituted and self-perpetuating groups. With all their resources of interlocking directors, interlocking bankers, and interlocking lawyers, with all their power to hire thousands of employes and service workers throughout the country, with all their power to give or withhold millions of dollars worth of business, with all their power to contribute to campaign funds, they are as dangerous a menace to political as they are to economic freedom. Modern European history teaches us that free enterprise cannot exist alongside of monopolies and cartels.

The real curse of our system of private enterprise today is that it has destroyed enterprise, it does not offer an opportunity for enough of the ablest men to rise to the top.

The direction of private enterprise no less than the direction of government is dependent on the quality of the men who run it. Government makes no bones of the fact that it hasn't enough of men of top caliber to handle the tremendous responsibilities that are thrown upon it. I want to confine government activity to its narrowest limits because good administrators are so rare. But while government lacks executive talent, big business lacks vision.

The fundamental trouble with the inability of private enterprise to adjust itself to modern conditions is that the dream of ability rising to the top is seldom true. There was a time when it did not make much difference if the son of the biggest director or the son of the biggest customer was vaulted to the head of the company over the heads of young men without connections. While there was real competition from other units in the industry, the rich man's son had to make good or the company went bust. But today when competition has been virtually eliminated by mergers and price agreements over large fields of our economic life, the rich man's son - or the clever corporate politician with a pocket full of proxies - can stay at the top of the company indefinitely because he has no competition.

The real brains of private enterprise are in subordinate positions forced to make the best of inept decisions of policy made by their corporate masters. The real operators of our utility companies, for example, have had to struggle along doing the best they can to meet the unnecessary and outrageous burdens placed upon them by superimposed holding-company finance.

There are forward looking enterprising managers in big business

today. There are companies farsighted enough to understand that the best men must be allowed to go to the top if the company is to survive. But in proportion they are mighty few.

The managers of big business - completely free and completely confident because they owned the government body and soul in the years prior to 1929 - so mismanaged the general policy of our system of private enterprise as to bring us to a point where government simply had to step in to save that system.

When government through the R.F.C. saved the capital structures of big business from going through the wringer it also saved many incompetent managements from going through the wringer at the same time. The blunt truth is that today we have in command of big business by and large the same bourbons who were in command of the defeat of 1929 and who since then have learned nothing and forgotten nothing. As the President stated in Chicago during the campaign, these bourbons now feel strong enough to throw their crutches at the doctor.

The fundamental curse of all this monopoly business is that it prevents the development of the manpower which the country needs even more desperately in private enterprise than in government.

Parents labor and save to provide formal educations for their children and when that education is finished there is no place for the boy or girl to go except to start at the bottom of an impossibly long ladder of a few great corporations dominated by America's 60 families. One

of the ablest of America's young business men was recently quoted in his advice to other young men - "as soon as you find that your boss is a dumb-bell quit." But except for a few of the most extraordinary of our young men where does he go if he quits? In one of the last public interviews the late Newton Baker gave he was quoted as saying the only cure for the troubles of the world was for the nations to acquire more educated men. But the only true educator of man is responsibility. But that opportunity is denied to the average American young man and woman and to the country which desperately needs the fullest development of their potentialities, because of the growing concentration of economic power in the hands of the few. We must force a resumption of competition in our business life to give a chance for the best man power in private enterprise to emerge, and thus give a private enterprise a chance to survive.

Big business has let loose its bull dogs to bark at the public that my speeches attacking monopoly are "destructive and deceitful" and that the real cause of the high prices and the consequent recession is labor cost.

I know too much about big business to attack labor for its struggle to get a decent wage or to blame it for this recession. Labor has had nowhere near the percentage advance that big business has given to its own darlings. Labor would be happy, I am sure, to get increases only in the same proportion and at the same time as managers of big business increase their own salaries.

Let us see how the pay of big business and the pay of labor compared. I dislike to be personal but it is a matter of public record that Mr. Sloane of General Motors received in 1934 a compensation of \$261,473.75. In 1935 it was advanced to \$374,505. In 1936 it was advanced again to \$561,311.

Mr. Knudson received in 1934 \$211,128.53. It was advanced in 1935 to \$374,475 and it was advanced again in 1936 to \$507,645. Of course the executive like the laborer is worthy of his hire.

What does big business mean when it asks for government cooperation? Does it mean the sort of cooperation that was given to it under the Hoover Administration? We can think of no other. Then let us look at big business' own record under the "cooperative" Administration of President Hoover and under the "hostile" Administration of President Roosevelt.

In 1932 three building material companies lost approximately three million dollars; in 1936 those same companies made a gross profit of approximately nine million dollars.

In 1932 two mail order houses lost eight million; in 1936 they made a profit above fifty million.

In 1932 three chemical companies made a profit of twenty-seven million dollars; in 1936 they increased that profit to ninety-six million dollars.

In 1932 three farm implement companies lost fifteen million dollars; in 1936 they made a profit of forty-four million dollars.

In 1932 four steel companies lost eighty-two million dollars; in 1936 they made seventy million dollars.

In 1932 two automobile companies lost eleven million dollars; in 1936 they made a profit of three hundred and one million dollars.

In the face of those astounding profits under the present Administration big business will never be able to convince the American people that it has been imposed upon, destroyed or even threatened. It has merely been saved from ruin and restored to arrogance.

The unvarnished truth is that the government's recovery program has succeeded nowhere else so effectively as in restoring the profits of big business. Labor has had no such advance. The small merchant has had no such prosperity. The small manufacturer has had no such advantage.

The only just criticism that can be made of the economic operations of the New Deal is that it set out a breakfast for the canary and let the cat steal it; it did not sufficiently guard recovery from the raids of the monopolist. One group in the United States that has no cause for complaint is the big business group.

It is this sort of thing which makes their assault upon the Administration and their general strike against the government so unjustifiable. A few nights ago Joseph P. Kennedy, one of the ablest industrial statesmen and political statesmen in the United States, stood up and told his associates in business to stop their "bellyaching." It is refreshing to know a man who can put in good Kipling language the whole philosophy of big business. Its attitude to government is a chronic bellyache.

Many of the present leaders of big business are a hang-over. They are repeating with the same dismal results the threatening tactics they tried on Theodore Roosevelt during the "rich man's panic" that they precipitated in rebellion against his reforms.

It is time they reread the famous answer he made in October 1907 in Iowa, which is the only answer a self-respecting administration can make to a "strike of capital."

"* * * At intervals during the last few months the appeal has been made to me not to enforce the law against certain wrong-doers of great wealth because to do so would interfere with the business prosperity of the country. Under the effects of that kind of fright which when sufficiently acute we call panic, this appeal has been made to me even by men who ordinarily behave as decent citizens. One newspaper which has itself strongly advanced this view gave prominence to the statement of a certain man of great wealth to the effect that the so-called financial weakness 'was due entirely to the admitted intention of President Roosevelt to punish the large moneyed interests which had transgressed the laws.' I do not admit that this has been the main cause of any business troubles we have had; but it is possible that it has been a contributory cause. If so, friends, as far as I am concerned it must be accepted as a disagreeable but unavoidable feature in a course of policy which as long as I am President will not be changed. * * *"

The Profit record of Big Business
under the "cooperative" administration of
President Hoover and under the "hostile"
administration of President Roosevelt.

	Profit (+) and deficit (-)	
	1932	1936
Building materials:		
U.S. Gypsum Co.	+\$1,599,416	\$5,328,114
Johns-Manville	-2,829,062	4,188,787
Certain-Teed Products	-1,600,077	- 791,550 (deficit)
Glass:		
Pittsburgh Plate Glass	-60,737	15,321,834
Owens-Illinois Co.	+2,067,886	10,099,131
Mail-order houses:		
Montgomery Ward	-5,686,784	13,527,310 (Jan. 31, 1936)
		20,198,914 (Jan. 31, 1937)
Sears Roebuck	-2,543,651	21,519,218 (Jan. 30, 1936)
		30,660,119 (Jan. 1, 1937)
Chemicals:		
E. I. duPont de Nemours Co.	+26,234,779	89,884,450
American Cyanamid Co.	+349,725	4,454,930
Monsanto Chemical Co.	+1,012,698	4,605,593
Communications: Western Union	-842,596	7,200,000
Heavy machinery:		
Fairbanks Morse	-2,547,231	2,252,941
Briggs Manufacturing Co.	-1,798,470	10,411,076
Worthington Pump Co.	-1,668,287	248,497
Mesta Machine Co.	+327,871	4,266,964
Farm Implements:		
International Harvester	-7,582,879	29,760,372
J. I. Case Co.	-2,611,082	3,083,281
Deere & Co.	-5,167,104	11,601,306
Textiles:		
American Woolen Co.	-7,269,822	1,929,983
Ludlow Manufacturing Associates	-400,632	1,918,845
Amusements: Radio-Keith-Orpheum	-10,695,503	2,485,911
Steel:		
U. S. Steel Corporation	-71,175,705	50,583,356
Crucible Steel Co.	-3,613,616	3,120,356
National Steel Corp.	+1,662,920	12,541,842
Jones & Laughlin Corp.	-7,910,149	4,129,600
Other metals:		
Anaconda Copper Mining Co.	-16,855,870	15,681,830
American Smelting & Refining Co.	-4,506,175	17,131,036
Motors:		
Chrysler Corporation	-11,254,232	62,110,543
General Motors Corporation	+165,000	238,705,193
Oils:		
Phillips Petroleum Co.	+775,766	17,875,489
Sun Oil Co.	+4,198,046	7,563,554
Electrical supplies:		
Westinghouse Electric	-8,615,398	15,099,291