

Quest for Optimism

By GEORGE A. BRIGGS

I WANT to be an optimist concerning the salvation of our so-called capitalistic economy. On the surface it seems simple. All we need are equal rights for all and special privileges for none. But try to get them!!

Intelligence, in my opinion, necessary though it be, is not enough. There is quite a lot of intelligence available. The managers and technologists of big corporations are not lacking in that respect. Neither are private recipients of rent and beneficiaries of patent monopolies. If intelligence were enough, our economy would not be in jeopardy.

The religionists talk a great deal about change of heart, a new birth. Maybe they've got something there. But that transformation involves primarily an emotional experience to redirect the intelligence towards social rather than self-centered ends.

The trouble seems to begin at the birth of every human being. We are born into the world self-centered. The new-born baby has urges and appetites which are purely personal. He wants what he wants when he wants it regardless of the rights and conveniences of others. He looks out for Number One in every way that his budding intelligence suggests. Only too often this tendency persists throughout life. It runs into difficulties of course, and compromises have to be made. But by and large the individual man remains the center of his own universe. He is relatively insusceptible to experience.

If obstacles prevent him from finding a direct route to satisfaction of his self-centered desires, he may make a detour but seldom will he change his objective. He may submerge some of his cruder demands in order to join with others who seem to be going in his general direction. Thus are formed pressure groups. They exert their combined pressure on the political powers that be. Naturally they rationalize their demands as being socially desirable.

Now those who lust for and possess political power do not differ in any fundamental respect from those who lust for economic power. Our legislators want to continue in power. Despite persuasive protestations, primarily they want to be re-elected.

That fact gives an economic pressure group its due to action. The result thus far has been government of the people by politicians for pressure groups. As one consequence two hundred giant corporations own more than fifty per cent of the corporate wealth of our country. They possess this wealth and the power it involves because of special legal privileges. Without such privileges they would be broken up into smaller and more efficient enterprises. Then too these monstrous corporations through laws enacted and judicially interpreted, are managerial dictatorships in which the individual stockholder has no power. Ownership and management are divorced.

To note but one more consequence, the private absorption of economic rent, as every Georgist knows is a social and economic crime. This absorption necessitates taxes on consumption and causes high land values, both of which lower our standard of living and create recurring booms and busts.

As a way out of this dire situation, or series

A Few Facts from Figures

By WILLIAM G. LEON

BECAUSE MOST of our industries involve an investment in both land and capital it is sometimes difficult to distinguish which profits are derived from rent and which from interest. Careful analysis, however, enables us to point up tendencies which manifest themselves no matter how complex the operation might be.

The Standard Oil Co. of New Jersey did a gross business of \$1,622,000,000 during 1946. The net profit amounted to \$177,000,000 or 11 per cent of the gross. Through a vast network of operating subsidiaries this company produces crude oil and refines, transports, distributes and markets gasoline, and other petroleum products.

One of these subsidiaries is the Creole Petroleum Company of Venezuela.* Creole has concessions in and around Lake Maracaibo from which crude petroleum is derived. Little if any refining is involved. During 1946 Creole did a gross business of \$243,000,000—net income \$83,000,000. Ninety-three per cent of Creole's gross and net income is included in Standard Oil's consolidated income account. Consequently, \$225,000,000 of this company's gross receipts came from Creole. This is 14 per cent of the \$1,622,000,000 total. Ninety-three per cent of Creole's net income amounts to \$77,000,000—which is 43 per cent of Standard Oil's aggregate net income of \$177,000,000.

We see then that in a field of endeavor in which Standard Oil functions almost entirely as a landlord, 14 per cent of the gross contributes 43 per cent of its net income. This leaves \$1,397,000,000 of the parent company's gross and \$100,000,000 net income to be broken down into rent and interest.

Another important operating subsidiary of Standard Oil is the Humble Oil Company of Texas which is both a producer of crude oil and a refiner. Here the relative position of the enterprise as landlord and capitalist is more evenly balanced. Humble's operating statistics for 1946 show that the daily average of net crude production was 309,500 barrels. The daily average of crude oil refined was 202,400 barrels or 65 per cent of crude production. This indicates that the

* This is 93 per cent owned by Standard Oil.

of situations, it may be urged that man's adversity is God's opportunity. But how much adversity does man have to have? We have had two world wars within thirty years. We have had recurring booms and busts with each one worse than that which preceded it. We have a national debt of two hundred fifty billions of dollars. To accumulate that amount would require three hundred fifty thousand dollars per day for two thousand years. The world is torn by ideological strife. Most of the nations are insolvent. Our own is not, but will remain solvent only as long as we are able to maintain stable employment. But with special legal privileges sapping our vitality, how long may stable employment be maintained? My thought is that our economy cannot survive another major depression. If you know how, within the near future, such a depression may be either avoided or survived, please tell me, I'll be listening.

Consolidated Income Account (\$000,000)

	Gross	Per Cent	Net	Per Cent	Per Cent
Creole	225	14	77	43	34
Humble	528	20	52	29	16
Other	1,069	66	48	28	4.5
	1,622	100	177	100	

balance leans toward land and away from capital in considering the ratio between rent and interest.

Standard Oil owns 72 per cent of Humble. Therefore Standard's share of Humble's 1946 gross business of \$456,000,000 amounted to \$328,000,000. Humble's net income last year was \$72,000,000. Standard Oil's 72 per cent share comes to \$52,000,000.

We have now accounted for 72 per cent of the Standard Oil (N. J.) Company's net income for 1946. Of the \$177,000,000 total \$77,000,000, or 43 per cent came from Creole and \$52,000,000 or 29 per cent came from Humble. But these two subsidiaries contributed only 34 per cent of the gross income.

This brings us to that part of Standard Oil business in which it is predominantly a capitalist. Subtracting Creole's and Humble's contribution to gross sales, we find that \$1,069,000,000 worth of products were sold during 1946. Deduction of Creole's and Humble's share of net income leaves \$48,000,000.

We have seen in this analysis, as we progress through Standard Oil's operations, that starting with a subsidiary which is predominantly a landlord, then moving to another which is more heavily involved as a capitalist, that the rate of return declines. When we finally arrive at the portion of the over-all operation which is predominantly a capitalist enterprise, the profit drops sharply. Creole had a net income of 34 per cent on gross. Humble made 16 per cent, and the rest returned 4.5 per cent.

We can go further by analyzing the part of Standard Oil other than Creole and Humble. This section which contributed \$1,069,000,000 of gross and \$48,000,000 of net income is not purely in the capital category; it is only partially so although the balance is heavy toward capital and away from land.

In 1946 this section produced one-third of the crude petroleum, while Creole and Humble contributed two-thirds of the total for the entire operation. This indicates that some part of Standard Oil's net income, aside from Creole and Humble, which amounted to \$48,000,000, came from the smaller portion in which it is a landlord. Just how much came from the land side cannot be reliably estimated but the evidence in hand shows that the return on capital tends toward zero.

The Standard Oil Company management has not been favorably inclined toward the ideas taught at the Henry George School. Perhaps these people have never seen their operations analyzed from the point of view of fundamental economics. Still they must know that 66 per cent of their gross income, or over one billion dollars of effort in refining, transporting and marketing of petroleum products annually must be relegated to the "lost motion department."