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ECONOMIC INSTITUTIONS

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ABSTRACT

Major trends in economic institutions reflect the breakdown of the "laissez faire" system of policies which relied on automatic market forces to bring the economic adjustments necessary to maintain full use of resources and full employment. Steps to substitute positive controls for automatic forces have been taken pragmatically, in response to the needs growing out of specific situations and the pressures of particular groups seeking relief or security in the face of depression. Efforts to sustain wages and extend capital expenditure immediately after the 1929 collapse were isolated measures undertaken within the framework of laissez faire policies. After 1933, the federal government assumed two new, closely interwoven functions: (1) to make the economy operate and (2) to provide social security. The measures taken to rebuild financial institutions, stimulate and guide industry and agriculture, strengthen the bargaining position of labor, promote international trade, and sustain minimum levels of living constitute steps in economic planning. The war economy accentuates the forces making laissez faire unworkable and increases the trend toward economic planning.

The development of economic institutions in the United States during the 1930's has been dominated by the great depression and the clearly evident discrepancy between economic potentials and economic performance. The decade saw the intensification of conditions making ineffective the system of economic policies known as laissez faire. It saw the increasing disillusionment with that system, the pragmatic adoption of policies antithetical to it, and the breakup of laissez faire as an operating institution. War economy continues the departure from laissez faire and makes any return to that system less likely. The institutional trends of the last decade throw some light on possible post-war economic institutions, but even more they raise questions as to the system of policies which those institutions are likely to exemplify.

I. THE DISCREPANCY BETWEEN POTENTIALS AND PERFORMANCE

The magnitude of the depression and the discrepancy between potentials and performance is indicated in the basic data of national production. Stated in 1939 dollars, total national production declined from over sixty-nine billion dollars in 1929 to forty-three billion dollars in 1932—a drop of 38 per cent.[1] After 1932, production

[1] National Resources Committee, *The Structure of the American Economy* (Washington, 1939), p. 371. Data adjusted to 1939 prices.

had increased again, to seventy-one billion dollars in 1939, the peak of peacetime production, and to eighty-six billion dollars (in 1939 dollars) under the war pressure of 1941. In the same period man-power increased and production techniques improved so that potential production increased. The National Resources Committee's estimates of potential production suggest that in 1939 reasonably full employment would have meant a national income in the vicinity of ninety-three billion dollars, or 30 per cent more than was actually produced.[2]

Disillusionment with laissez faire.—The great decline in business activity and in the incomes of every important economic group in the community between 1929 and 1932 intensified the growing awareness of weaknesses in the economic system. Each major economic group, most immediately conscious of its own difficulties, became a center of pressure to bring about changes in economic policies and institutions in its own favor. At first the pressures were sporadic—destruction of milk on the way to market, the forcible prevention of mortgage foreclosures, the creation of barter exchanges in the cities. Then formal demands for government action developed—the demand for a cotton program, a wheat program, a moratorium on farm, home, railroad, and industry mortgages, demands for raising tariffs, subsidizing exports, providing unemployment relief, preventing ruinous price-cutting, holding up wage rates, and supporting the undermined banks and insurance companies. Most of these and similar demands were based on the pressing needs of the moment without serious consideration of whether or not they would further undermine the workings of the laissez faire system of policies. They were pragmatic demands for pragmatic action.

At the same time there was a growing tendency to question on more systematic grounds the effectiveness of the automatic market forces on which the system of laissez faire policies relied. Some groups pointed to Russian successes in substituting planning for automatic forces; others pointed to Italian and later German successes in finding an alternative to laissez faire. Still other groups sought a democratic substitute. And popular but ill-defined alternatives, such as social credit and technocracy, received public attention.

[2] *Ibid.*, p. 2. Data adjusted to 1939 prices.

While this questioning of the laissez faire system undoubtedly played an important role in creating an atmosphere in which economic experimentation was feasible, the main drive for institutional change came from specific groups demanding pragmatic action. These actions, for the most part, involved the use of government power to inhibit the workings of the automatic forces of laissez faire. Whether the government could build the separate proposals into a coherent program likely to bring about effective use of resources was a problem usually outside the concern of the particular pressure groups. Yet the net impact of the separate demands was a general repudiation of the laissez faire system of policies, and the efforts to meet these demands constituted at least a temporary jettisoning of the institution of laissez faire.

A sketch of the changes in economic institutions during the past decade must focus on this most basic institutional change, the forces bringing it about, the steps by which it has been achieved, and the form it has currently taken.

II. BASIC DEVELOPMENTS IMPAIRING EFFECTIVENESS OF LAISSEZ FAIRE

The developments making for the impaired effectiveness of the institution of laissez faire have been of world-wide occurrence and stem in large measure from the efforts of individuals, enterprises, and nations to gain increased control over their respective economic environments. These developments include the creation of cartels and corporate concentration, the strengthening of labor and farm-bargaining units, and high tariffs and quotas. Each of these represents a unilateral effort to limit competition to a greater or lesser extent in the interests of a particular economic unit. And each such limitation engenders efforts toward further limitation on the part of the economic units adversely affected. In Europe this development had carried so far by the late 1920's as to make conditions ripe for the Fascist alternative to laissez faire. In the United States these basic developments inhibiting the effective working of laissez faire had already progressed a long way by 1929 and continued through the following decade.

Corporate concentration.—Although corporate concentration had progressed in considerable degree by 1929, the process was accelerated in the early depression years and has probably continued during the subsequent years. According to figures published by the National Resources Committee, in 1929 approximately half the nonfinancial corporate assets were in the control of the two hundred largest companies. The assets of the largest corporations declined somewhat with declining business activity, but the assets of medium and small corporations fell drastically so that by 1933 two hundred big corporations controlled 57 per cent of all nonfinancial corporate assets.[3] This great increase in concentration resulted partly from mergers or purchase of assets as smaller or weaker companies were taken over by the large companies. But to a greater extent it reflected the much higher depression mortality of smaller enterprises. To some extent it reflected heavy capital expansion in 1930, as some of the big companies attempted to stimulate declining business activity. The effect of the increased concentration was to give the two hundred largest corporations control of approximately one-fifth the country's national wealth and one-half the country's industrial wealth (national wealth less farm assets, government-owned wealth, residential housing, and personal belongings).[4]

No figures are available to establish whether or not concentration has increased during the years of business improvement since 1933, but such incidental evidence as is available points to a further strengthening of the relative position of larger corporations.

Labor organization.—The most phenomenal of the basic industrial developments during the decade has been the great resurgence in labor organization, as labor in less than a decade partly caught up with corporate concentration in the mass-production industries, bringing between eight and ten million workers into collective-bargaining units. This development will be discussed in a subsequent article. It should be noted here, however, that in the period from 1929 to 1933, when business activity was declining, labor organization was relatively weak and could not be considered as significantly inhibiting the operation of laissez faire policies. Only when corporate concentration had already occurred on a large scale did the counterbalancing concentration in labor bargaining-power occur in the mass-production industries.

[3] *Ibid.*, p. 107.

[4] *Ibid.*, p. 106.

The decline in the relative importance of agriculture.—A third factor, making laissez faire policies less effective, is the long-time trend of decline in the relative importance of agriculture in the national economy. This trend, though temporarily reversed during the deepest years of depression, when workers returned to farms or stayed on farms because of lack of industrial employment opportunities, has continued for the period as a whole. In 1930, 23.5 per cent of the gainfully occupied were engaged in agriculture, whereas by 1940 the proportion had dropped well below 20 per cent. The war program is likely to accelerate this transfer. Since agriculture has been one of the few major economic fields in which the institutional conditions presumed by the system of laissez faire policies still survived, its decreasing relative importance acted further to reduce the effectiveness of such a system.

International trade restrictions.—In the international sphere, tariff restrictions, quota restrictions, and trade controls increased during the decade, reducing the effectiveness of free markets in adjusting international trade and placing a burden on any country not meeting restriction with restriction.

In part these trade restrictions were responsible for and in part they were stimulated by the breakdown of the international gold standard and the accumulation in the United States of most of the world's monetary gold stock. This breakdown of the gold standard represents the abandonment, at least temporarily, of an institution basic to nineteenth-century laissez faire and the substitution of government controls over monetary values for automatic controls in most of the nations of the globe.

Combined effect.—These various trends of institutional change and other less important trends made automatic market forces less effective in directing the use of resources. Certain institutional developments, notably the policing of the security markets, the strengthening of food and drug regulations, and relatively minor antitrust actions, served to increase the effectiveness of market forces. But, on balance, the underlying development throughout the decade has been a continuation of the long-run trend away from conditions in which a system of laissez faire policies could be expected to work effectively. To this have been added the effects of new policies departing from laissez faire and arising from its failure.

III. PEACETIME DEPARTURES FROM LAISSEZ FAIRE

The first major peacetime departure from laissez faire policy came shortly before the beginning of the past decade. Under the leadership of Governor Strong, Federal Reserve policy was aimed directly at stabilizing prosperity. This institutional development is significant not for its success or failure but for the indication it gives that in the highest government-banking circles there was serious doubt as to the complete effectiveness of automatic forces. The belief that prosperity could be stabilized through banking policy undoubtedly contributed materially to the myth of the "new era" which came to such a sudden end in 1929. The banking efforts to stabilize prosperity gave legitimacy to the discussion of other intervention measures with similar aims.

Putting brakes on depression.—In 1930, after a sharp decline in stock market values and some recession in business activity, a second significant step away from laissez faire was taken. Big business representatives were called to Washington and, in conference with the President, agreed to hold up wage rates and to expand their capital equipment, both measures being aimed at maintaining buying-power. There is evidence in the capital expansion of big corporations already mentioned and in the behavior of wages in the mass-production industries that this agreement was largely adhered to throughout 1930 and perhaps into 1931. Yet both measures, particularly the freezing of wage rates, ran counter to laissez faire policy and could be expected to impede the automatic correctives which were otherwise being relied upon. These two measures were similar to the efforts to stimulate buying-power which later formed part of a more comprehensive program. They were, however, isolated in an otherwise laissez faire policy and their effect was short lived.

As depression deepened, other steps away from laissez faire were taken, particularly measures to limit the destruction of business values—the very device through which automatic forces were presumed to bring correction. With increasing depression the Federal Farm Board, created in 1929, acted to remove from the market some of the surplus farm products and to minimize further deline in farm prices. In 1932, the Reconstruction Finance Corporation was created by the federal government to provide relief to banking and other business enterprises. These measures, like those aimed at sustaining buying-power, were forerunners of similar measures taken after 1932, but they were taken with the expectation that automatic forces would carry economic activity around the corner to prosperity. The specific measures were measures of economic planning, but the psychology was the psychology of laissez faire.

Experiments in economic planning.—In 1933, the nation tacitly accepted the failure of laissez faire and placed on the federal government the direct responsibility both for making the economy run and for reducing the hardship imposed on individuals and enterprises due to the malfunctioning of the economy. Of the two new functions, the second was the more clearly understood and lent itself to a more direct approach. Specific measures of business and human relief could be undertaken. But the problem of making an economy run on some other democratic basis than laissez faire had received little thought and still less public discussion. The Russian and Fascist patterns were available but were clearly not acceptable to the American democracy. Experimentation was the natural alternative. Various measures were undertaken, some more, some less, successful. The whole period from early 1933 to 1940 must be regarded as one of trial and error, a searching and testing of measures likely to bring performance up to potentials.

While the two new functions adopted by the federal government can be sharply distinguished, the actual measures taken in most cases contributed to the carrying-out of both functions. Indeed, nearly every major element of the new program found some advocates because the measure was expected to relieve economic hardship, other advocates because it was expected to increase economic activity, and still others for both reasons. It is not possible to view the development of economic institutions after 1932 intelligently without being aware of these two new objectives which so largely conditioned the development of new economic institutions.

Rebuilding financial institutions.—Rebuilding of financial institutions was an essential step in carrying out the new functions. The more important new developments in this field were the insurance of bank deposits, the devaluation and segregation of gold, the policing of security markets already mentioned, the extension of federal credit facilities, and the institutionalization of the federal deficit.

In re-establishing the banking system after its collapse in the spring of 1933, the major new developments were the setting-up of the Federal Deposit Insurance Corporation, insuring depositors to the extent of $5,000 or less; the reinforcement of banking capital through purchase by the Reconstruction Finance Corporation of newly created preferred stock of individual banks; and later the granting of increased powers to the Federal Reserve Board to alter reserve requirements and in other ways limit excessive bank-credit expansion. The new powers given to the Federal Reserve Board were negative and could not insure an expansion in the monetary supply when needed. Even the restrictive controls were cumbersome. The institutional changes of the period thus gave substantial safety to the monetary supply but left the determination of its amount and composition very largely to automatic forces with crude restrictive power in the hands of the central banking authorities.

The period also saw the demonetization of gold in the United States. By executive order all gold was withdrawn from internal circulation. The nominal gold content of the dollar was reduced, and, following the practice of other countries which had demonetized gold, an exchange-stabilization fund and some degree of exchange-rate control were established. During this period the monetary effects of gold movements were largely sterilized by allowing gold to flow in or out of the country without a multiplicative effect on the money supply. Gold became a commodity capable of being exported or imported but no longer a device for balancing international trade through an automatic linking of exchange rates and the monetary supply. No clear alternative device for balancing trade has been instituted, and an unbalance has been met by almost continuous import of gold. Between the beginning of 1933 and the end of 1939, ten billion dollars of gold had been imported on balance, and by the middle of 1941 the United States held three-quarters of the world's gold stocks outside of those used in the arts.

The extension of federal credit, directly or through explicit or tacit government guaranty, progressed far beyond the limits of the Reconstruction Finance Corporation and the system of Farm Credit agencies as they stood in 1933. Over three billion dollars' worth of the outstanding farm mortgages were refinanced by the Federal Land Bank system, and other forms of farm credit were made available. Over two billion dollars in home mortgages were taken over by the newly created Home Owners' Loan Corporation. A system was set up for guaranteeing mortgages for new housing, and the Reconstruction Finance Corporation greatly extended its activities in providing industrial credit. The system of government credit agencies thus covered the whole range of farm, industry, and home credit. In the decade it had come to play a significant role. For the most part it was initially organized to facilitate economic recovery by unfreezing the capital markets which had become illiquid as a result of the great decline in values. By making credit available at relatively low rates and liquefying existing debt, it was hoped that new capital outlays would be made, particularly for industrial plant and residential housing, which would put to work unemployed labor and unemployed capital funds in addition to those made available by the government. As it developed, more emphasis was placed on the financing of new activity. By the end of the decade it represented a comprehensive and more or less loosely integrated credit system available for use in war planning and capable of being expanded or contracted in the post-war adjustments.

The institutionalization of the federal deficit took place slowly through the period. Heavy deficits were incurred in the years of declining economic activity just prior to 1933. Deficits continued of even greater magnitude in the subsequent years. But in the earlier years the standards of household economy were applied to government economy and the deficits were for the most part regarded as bad housekeeping—as a case of the federal government living beyond its operating income. Continued deficits were thought of as bad for business and undermining to credit. Gradually through the period the constructive role of government deficits came to be fairly generally recognized. It was realized that if the government collected as much in taxes as it paid out in expenses and relief it would be likely to generate no net addition to buying-power, whereas, if it paid out more than it took in as taxes and financed the difference by borrowing funds that would otherwise be idle, it put the idle funds to work and thereby generated buying-power. Thus a government deficit became one of the positive tools for fighting the depression. Technical debate centered around a deficit as a pump-priming device with the budget balanced over a period of years versus a deficit as a continuing device for offsetting excessive saving. Whatever the outcome of this debate and whether or not a continuing deficit would be the most satisfactory device for counteracting any tendency to oversave, the period has seen the shift from treating a deficit as bad housekeeping to its treatment as a positive instrument for economic planning.

Efforts to make the economy run.—The major efforts aimed most directly at increasing economic activity include deficit spending, public works, the farm program, the national recovery program, measures to strengthen the bargaining position of labor, and the stimulation of foreign trade through trade treaties.

Deficit spending between 1933 and 1939 amounted to a six-year total of over eighteen billion dollars. The deficits arose primarily from four lines of activity—the extension of federal credit, the financing of public works (including government housing), payments under the farm program, and relief payments in various forms.

The public works program, initiated in the 1933 legislation establishing the National Recovery Administration, was aimed to provide immediate markets for both industrial products and labor and to produce useful facilities which would not compete directly with private industry. It took the form mainly of building highways and other transportation facilities, schools, post offices, and other public buildings, recreation facilities, power-generating and distributing facilities, and, in the case of work relief, constructing facilities for nonprofit-making institutions. Between 1933 and 1939 five billion dollars were spent on public works through the Public Works Administration. In addition, some public works were constructed with work-relief funds. These public works expenditures not only provided markets for labor and materials but provided them in the lines where they were needed most—the construction industry.

The farm program instituted in the Agricultural Adjustment Act, passed almost simultaneously with the bill creating the N.R.A. and the P.W.A., has progressed through various transformations, but its essential objective of farm parity has remained constant. The program was initially aimed to raise farm prices by restricting farm production to the amount of farm products which would be called for at prices which represented parity with industry. Parity was originally defined as the ratio of the price of each farm product to nonfarm prices at some earlier date, in most cases the average from 1909 to 1914. However, the concept of farm parity has never been a single concept. In particular, it has included both the idea of price parity and income parity. Initially focusing on price parity as the basic objective, the program has increasingly emphasized income parity, with price parity as one device for achieving this end. This shift in emphasis on the part of agricultural groups was to be expected where a parity price for a particular crop would mean less income to farmers than a lower price. Whether the conception of either price parity or income parity has a permanent usefulness as a guide to national policy remains to be seen.

The program of crop restriction as a device for achieving farm parity involved the contraction of farm production to a degree roughly commensurate with the already existing restriction of industrial production to be followed by an expansion of agricultural production as industrial production expanded. This course has been followed and the initial crop limitations have been lifted as industrial expansion has increased buying-power. Under the conditions of war demand, this process has gone even further, and some of the devices formerly used to limit production have been used to induce expansion of agricultural production, particularly of the crops that were expected to be most needed.

The farm program has also involved objectives other than price or income parity. Of these, the two most important have been soil conservation and improvement in the composition of agricultural production. By means of benefit payments for improved farm practice, aid in rebuilding eroded land, and other measures, important progress was made toward maintaining or increasing the productivity of the soil. By similar means some progress was made in shifting production from "surplus" crops like cotton to nonsurplus crops, and from soil-depletion to soil-building crops. The accomplishment under these programs cannot be measured in statistics but only in the increased farm welfare over a period of years.

The farm program has also involved an institutional development of great significance, particularly with respect to the possibility of democratic planning. Each year's farm program is, in large measure, developed out of the detailed work of over three thousand county committees and additional community committees composed of local farmers working with the assistance of the various state agricultural colleges and state and federal agents in the field. Thus to an important extent the farm-program planning comes from the ground up rather than being dictated from the top down. While it would be possible to overemphasize this farmer participation in program-planning, it is important in considering recent experiments in democratic planning.

The third major element in the initial program aimed at halting depressions and making the economy run was that carried out under the N.R.A. Initiated in June, 1933, in the same piece of legislation establishing the public works program, its objectives, to be realized through the creation of industrial "codes," were less clearly envisaged than those of either the public works program or the farm program. Its adoption resulted from the pressure of various groups having different objectives and in some cases even conflicting objectives. Four major groups are worth distinguishing. First, there were business and industrial representatives who had long sought a relaxing of the antitrust laws so that businessmen could make industrial agreements to eliminate practices such as "price-chiseling" and "cut-throat" competition, which were regarded as harmful to industry. Second, there were those who sought to improve the status of workers through various devices such as the prevention of wage-cutting and most particularly through the shortening of the work-week with a consequent spreading of work. This group had been sponsoring a bill to limit the work-week rigidly throughout industry and accepted the National Recovery Act as a more flexible method of accomplishing the same objective. A third important group consisted of those who were less concerned with the problems of any particular economic group than with the problem of interrelating the interests of various groups so as to improve the working of the economy as a whole. Such coherence as developed in the programs can be attributed to an important extent to this group. Finally, and perhaps most important of all, there was a vast body of persons from all walks of life who were demanding "positive action now." The buoyancy of the initial flight of the "blue eagle" suggests that psychologically it was more important in the national interest that positive action be taken, however bad, than that more perfect action should be taken.

The actual conduct of the N.R.A. program reflected all of the diverse pressures which had brought it into being. The pressure for "action now" was reflected in the wholesale blanketing of business under the sign of the "blue eagle," involving, on the whole, rather vague obligations. The pressure for improving labor's status through the elimination of wage-cutting and the shortening of hours was reflected in the determined efforts of the top administrators of the act, supplemented by labor organizations, to get adequate labor provisions written into the industrial codes. The pressures to escape the limitation of the antitrust restrictions were reflected in the drive of business groups, particularly the trade associations, to take over the writing and administration of the codes. It would not be much of an exaggeration to say that the administrators of the act bought the labor provisions of the codes by allowing business representatives a fairly free hand with the remaining provisions. It was an experiment in industrial self-government. The pressure for making this industrial experiment a part of an integrated national program was reflected in the drafting of the initial legislation and, though less evident in the rush of initial code-drafting, was clear in the longer process of re-writing codes—a process cut short by the action of the Supreme Court in 1935.

Though the N.R.A. was short lived, it was an important step in the trend of developing economic institutions. Not only did it serve the psychological purpose of "action now" but, as an experiment, it had great educational value, perhaps as much in showing what not to do as in showing what to do. It disclosed both potentialities and dangers in industrial self-government. To some extent this is likely to condition future institutional development.

In the period after 1935, certain of the labor aims of the N.R.A. were accomplished through other means. Most important were the strengthening of the bargaining position of labor by the establishment of minimum-wage rates and maximum hours through a newly created wage and hour administration; by minimizing interference with labor organizations through the establishment of the Labor Relations Board, and by providing work or other relief for unemployed persons. These various developments in the field of labor are covered in a subsequent article in this issue.

Other measures besides buying-power generation, public works, and the farm and industry programs were undertaken during the period, with the primary aim of making the economy run. Of these, the most important, aside from the financial measures already considered, was the effort to expand international trade through a system of bilateral trade treaties. This trade program brought some reductions in tariffs and to that extent represented a development counter to the trend toward trade barriers and trade control. It, along with some extension of foreign credit and subsidy of farm exports, constituted part of the set of programs aimed at making the economy run.

It is not the purpose of this article to appraise the successes of these experiments. Economic activity improved during the period. By 1939, national production had recovered to a level above that of 1929. Whether the recovery was due to or in spite of these experiments in economic planning is open to debate. And, if recovery was largely due to these measures, they were by no means wholly successful since, even at the peak of production in 1939, between eight and ten million persons, or between 15 and 20 per cent of the labor force, were unemployed.

Social programs.—The first of the social programs instituted between 1933 and 1939 were largely of a stopgap character and aimed at relieving depression hardships, though some developed into continuing programs. Mortgage moratorium, relief payments, civil works expenditure, and loans to frozen businesses—all represented temporary measures providing a breathing spell in which measures to make the economy run were instituted and more carefully planned social programs were developed.

The main institutional significance of these temporary measures lies in the expansion in the scope of government responsibility which they represent. Prior to 1933, government had provided relief only for business hardships arising from depression. In the new measures it undertook to provide human as well as business relief.

Of the continuing social programs, one of the most important is the Social Security Program. Instituted in 1935, it makes provisions for old age insurance, for unemployment insurance, and for public assistance for various dependent groups. At the end of 1939 over four million persons were receiving public assistance in one form or another, while forty-seven million persons were covered by old age insurance and thirty-two million by unemployment insurance.

Through the Social Security Program, the United States has been catching up with the level of social protection which has been developed over a much longer period in other countries. Its fairly general acceptance constitutes a recognition of the imperfect workings of automatic market forces. The terms in which the insurance arrangements are made in themselves promise permanency, while further extension and intensification of the program in the future seems more likely than curtailment.

Other continuing social programs include such activities as the resettlement and rehabilitation of individuals on farms; the retraining of industrial workers; the establishment of minimum wages; the provision of work relief; the distribution of farm surpluses to persons on relief and to school children in the form of school lunches; and the increased emphasis on education, health, and nutrition.

These social programs grow out of the failure of laissez faire. They reflect a recognition of the fact that poverty and insecurity are brought to many through forces outside their control and constitute an acceptance by government of a responsibility for maintaining minimum levels of living.

Expansion of old functions.—In addition to the new functions of making the economy run and providing greater social security, the federal government has extended the scope of an older type of function. In the past, government has been required to perform some functions which could not be profitably or effectively performed by private or corporate enterprise. Postal service, coast guard service, road-building and operation, are some of the more important established fields. Since 1933, other comparable activities have been added. The Tennessee Valley Authority has been created and made responsible for the integrated development of the water-power of the Tennessee Valley, a function requiring powers beyond those possessed by public utility corporations, and other water-power developments have followed a somewhat similar pattern. The Rural Electrification Administration extends power lines into farm areas which do not promise sufficient profit to induce development by profit-seeking enterprise. The United States Housing Authority was created to provide low-cost housing for rental to families with incomes so low that private enterprise could not profitably provide housing except at slum standards. All these activities represent an extension of federal functions into fields not effectively covered by profit-seeking business.

Throughout the whole development of government responsibility during the past decade, the efforts to stem the depression before 1933, the efforts to make the economy run after 1933, and the new social programs, there is a single thread that links the separate measures together. This is the substitution of economic forethought and planning for automatic forces. However successful or unsuccessful it has been, it represents a trend of institutional development of the utmost importance.

IV. WAR ECONOMY

Since 1939, the problems of a war economy have become increasingly important until today they dominate the American economy. It is too early to see with perspective the effects of this new orientation. One fact stands out clearly, however: modern war—total war—requires a high degree of economic planning. Automatic economic forces will not supply the munitions of war in the quantity required. The last year and a half have seen the forging of the instruments of wartime planning. The country's formal induction into war has destroyed the immediate possibility of "business as usual." In many ways war planning represents an extension of the planning trend of the past decade, though with a new and more explicit objective. The war is also likely to intensify the trends which have made automatic forces unreliable. The inevitable squeezing-out of many small enterprises, the placing of greater responsibility for production on very large enterprise, particularly in heavy industry, the strengthening of labor organizations to balance the increased power of big corporate enterprise, intensified fiscal planning made necessary not by too little but by too much buying-power, increased social responsibility placed on government by war dislocation and destruction, and, above all, the necessity of deciding, industry by industry, what constitutes most effective use of resources in the light of total war—all these intensify the trends of the last decade.

After World War I the economic planning of the war was swept aside by the demand for a "return to normalcy." In looking ahead to the aftermath of the present war, should one extend the trends of the past decade or expect a repetition of the pattern following the last war? The forces making for a permanent rejection of laissez faire will have been strengthened, not weakened, since the last war. The experience in peacetime economic planning during the past decade and the new war-planning experience will give greater background for future peacetime planning than existed in 1919. The force of events and the prospect of closing the gap between potentials and performance both point to the continuance of the peacetime trend toward planning in place of blind automatic forces. The post-war problem would then become one of planned reconstruction and the development of democratic techniques for accomplishing that degree of economic planning essential to the maintenance of a fully functioning peacetime economy.

If this occurs, the economic historian in future years may well write of the past decade in the United States under the caption, "The Passing of Laissez Faire"—a period of ineffective use of national resources, of uncertainty, of growing dissatisfaction with old policies, of experimentation with new policies, some successful, some unsuccessful, of a prelude to the development and acceptance of a new system of democratic national policies more able than those of laissez faire to bring about effective use of resources in an economy of mass production and mass distribution.

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