

BUSINESS BULLETIN

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THE BUSINESS BULLETIN



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A NOTE ON JUSTICE

In August 1945 World War II ended. The enslaved countries were set free, the soldiers went home and the world tried to make peace but some people didn't have a home.

When Hitler had first started on his campaign for the enslavement of the world, his first target was the Jews. The Jews represented the international bankers, the Jews represented the communists, the Jews were a good way to start. He began in 1933 and by 1945 six million less Jews were alive on this troubled planet.

The few remaining ones wanted a place to go. They had no home so they looked to their brethren who had escaped the scourge of Nazism and had established a tiny agrarian colony. The remaining Jews wanted to go to Palestine, to be in peace and live like everyone else. But the door was blocked. Immigration was virtually barred so they became D.P.'s, Displaced because the only people who wanted them couldn't take them.

This striking injustice was brought to the United Nations and 33 countries said that half of Palestine should be a Jewish state and that the persecuted and the weak and homeless could go there. Now the Jews could really make peace and go home for, finally, they really have a home to go to.

We, of the BUSINESS BULLETIN, salute the New Jewish State.



ARE WE GOING TO HAVE A DEPRESSION?

The BUSINESS BULLETIN has consistently published articles on current economic problems. No current problem could be considered more important than the one which concerns itself with whether we, as a nation, are to enjoy prosperity or suffer a depression in the near future.

With this in mind, we have endeavored to present the views on this controversial question as seen by the three leading institutions which are the vital factors in our economy -- business, government, and labor.

Edwin D. Boxbaum,
Associate Editor.



BY EARL BUNTING

*President, The National Association
of Manufacturers*

There is no reason why we should have another major depression -- provided all of us use our brains and our courage to prevent it.

Management, single-handed, can not reasonably be expected to wipe inflation and depression from the earth. There is much, however, that business can and will do on that score, provided it is given a fair chance to operate in an atmosphere of understanding and encouragement on the part of the government.

Within recent months, I've traveled more than fifty thousand miles throughout the United States and talked with literally thousands of people. I didn't discover a single American who wanted a depression. The Communists and their dupes, the Collectivists, both here and in Russia, would welcome a depression, however; it would give them the chance they want to get their hands on the reins.

But the American people don't want a depression. Business certainly does not, for it would be the first part of our economy to be crippled or, indeed, wiped out completely by the consequences of a major depression.

We believe that industry's constructive program, which it is determined to carry out, can do much to help dissolve the fear of a depression. Let's examine some facts and figures:

1. Contrary to what the leftists would like Americans to believe, the interests of labor and industry are indivisible. If one suffers or fails, the other does, too. Realizing this, the NAM is urging employers of the nation to devise techniques by which individual companies can approach the problem of employment stabilization, to provide steadier work and wages for American workers. Each industrial plant and community will have its own particular problems and conditions, which it will have to meet in its own way.

Production techniques to establish jobs include standardization of parts, deferrals of work in slow periods, long-term orders and subcontracting items which interrupt normal production flow. Sales techniques deal with changing customers' buying habits through advertising, timing of new models, diversification of products, off-season price concessions and incentives to salesmen.

Other methods of regularizing jobs call for centralized personnel control, inventories of job requirements and skills available, training programs to increase the versatility of the labor force, and utility crews to break bottlenecks in production.

In the furtherance and implementation of the employment stabilization plan, seventy-five "clinics" have been held and twenty-nine more are planned by state and local trade associations, with NAM assistance, in the national program aimed at flattening out the hills and valleys of the employment graph. The trade associations are affiliated with the NAM through the National Industrial Council.

2. The physical output of American industry as measured by the Federal Reserve Board index of production is now at the highest level in peace-time history and this despite the drag of major strikes and of controls which were kept on too long after the end of hostilities.

3. Some people think present production can't go up more than five per cent because of limitations of capacity and, therefore, the next move must be down. Capacity, however, is being expanded by the majority of businesses today; there is no arbitrary ceiling on capacity, as we discovered during the war. Undoubtedly, some individual businesses are facing or will be facing a downward trend in the near future. This is true at any time, in any year, in any democracy -- and particularly true today where stiff competition is being resumed, where some semblance of balance in the flow of goods and services is being restored.

4. Spotty reports on unemployment are alarming some people. It should be borne in mind that today we have sixty million people working compared with a war-time peak of fifty-four million at the highest point and a pre-war total around forty-five to forty-eight million. These are figures of the U. S. Census Bureau.

5. Food prices are serious. But it is not accurate nor fair to conclude from these that we have general run-away prices which lead to run-away inflation, which in turn points the way to a depression.

6. Hourly wages have nearly doubled since 1939 and weekly wages have more than doubled. Even considering high prices and taxes, workers are much better off than they were before the war. According to the Department of Commerce, the net savings of individuals out of current income are running around eleven billion dollars a year as compared with a rate of six billion a year in

1939 -- a current rate of savings three times the pre-war rate, and a definite bulwark against any depression.

To me these facts and figures do not indicate cause for alarm or distress. They can hardly be regarded as discouraging.

Today a large part of the world is in the throes of financial bankruptcy. Britain is finding that increasing nationalization means increasingly cold, hungry and discontented people. France is finding that state-owned coal mines are losing eight and a half million dollars a month, that a single nationalized aircraft construction company ran up a five million dollar deficit last year.

As for Russia, a recent AP dispatch reports that "the Kremlin may well have given the go-ahead signal for an unprecedented campaign against the United States to divert the attention of the Russian people from serious economic conditions within the USSR."

Apparently, wherever the individual is reduced to a tiny cog within the vast machinery of the all-knowing, all-wise, all-powerful state, the result is slow but sure economic suicide.

We will escape that fate, in my opinion -- provided management, labor, government and the public work together sincerely and in good faith.

Production -- and more production -- is the answer.

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"All this struggling and striving to make the world better is a great mistake; not because it isn't a good thing to improve the world if you know how to do it, but because striving and struggling is the worst way you could set about doing anything."

- George Bernard Shaw



BY AVERELL HARRIMAN

Secretary of Commerce

Veterans have returned from the pressure of war to a home economy in the midst of many changes and adjustments. They moved from participation in the tough struggle of war to the great enterprise of reconversion. The addition of their skills and strength to the nation's working force helped make possible our remarkable achievements in the change-over. Those prophets of gloom who could see only vast unemployment ahead for us in 1946 have been proven wrong; we have had our difficulties, but our level of employment today is the highest in peace-time history.

Yet there is no sense in fooling ourselves. We are still in abnormal circumstances. Our shipments for foreign relief are continuing. We are still riding on a crest of pent-up consumer demand and wartime savings. We are only beginning to cope with the shortages of housing and capital equipment needed for industry and agriculture. Our internal responsibilities require the maintenance of a greatly reduced but still sizeable Army and Navy.

We are helping support the populations of the countries we are occupying until they can stand on their own feet under democratic governments.

The great jobs remaining to be done, and the adjustments which are continuously taking place in our economy have resulted in some more gloomy forecasts that we are due shortly for another major collapse. There are some who feel that because \$10,000 mink coats are no longer selling like hot cakes we are now on the road to disaster.

Are we? I say no.

At present, the after-effects of war are still distorting our economy. It is therefore unusually difficult to see what is coming very far in advance. But there are two general points we can make.

The first is that further economic adjustments will continue to be necessary. In our vigorous and creative economy that situation is not new. In the past there have been frequent -- and even constant -- adjustments and readjustments as new situations arose. We have never gone for very long without fluctuations in the level of business activity and of employment.

We are now engaged in a tremendous task of re-directing the greatest industrial plant in the world, and many balances have to be maintained.

During the war the Government purchased more than one-half of our total output. That proportion has rapidly declined since V-J Day, and we are still accommodating our economy to the change. An excess of demand for non-durable consumers goods such as food and clothing is gradually being reduced, but production still has some distance to go to catch up with our needs for durable consumers goods such as refrigerators and automobiles, and a long way to go in the field of housing.

For some time a portion of our national output has gone to fill the pipelines of our production and distribution systems -- the shelves of our warehouses and retail stores. Eventually these shelves will fill up. When that happens we will be faced with the additional problem of maintaining a balance between our present high level of production and demand.

Our foreign trade has been at a very high level, both because of the great need of other countries for the goods we are able to provide and because of our willingness to come to the aid of people in distress through relief and to extend loans for their purchases for reconstruction. We have still ahead of us the problem of keeping the volume of the commerce with the world at large and at the same time of putting it on a self-sustaining basis.

We have still to complete the transition from a situation in which there is a general excess of demand in relation to production, to a balance between demand and production.

These adjustments will cause declines in some lines of production shift and reduction in the pattern of inflationary price pressures, and will cause employment to fluctuate. The prophets of gloom will have a number of symptoms to which they can point with misgiving.

However, the second thing which I feel we can say at the moment with assurance is that another big economic collapse in the United States is not inevitable. No responsible person, aware of the complexities which confront us, would venture to predict that we can hope to iron out every wrinkle in the curve of our economic activity. Yet, we successfully accomplished one of the greatest economic adjustments in history -- converting our production to war and we are well along in the even more complex task of reconversion to peace-time production. On the basis of our record, I think we have reason to feel confident that we can finish the job.

Today, many people are intelligently concerned about the future. There are a few, of course, who are resigned to the inevitability of another catastrophic depression. Despite their misgivings, I see in the present situation a hopeful sign. The fact that we are giving thought to the possibility of a recession is in itself a reassurance that the dangers are foreseen and provides hope that they can be avoided.

We now have an economy which is equipped with a number of built-in shock absorbers. Unemployment insurance, farm price supports, and insured bank deposits are some of the devices that will afford us a measure of protection in case of a set-back.

Our economy is vigorous. Production is high and productive efficiency appears to be on the increase. The volume of private savings is still substantial. Demand for a long list of products is still much larger than current production. Because our adjustments to date in reconversion have been made without noticeably affecting employment, consumers' incomes continue to be high. Despite the substantial price increases, we have escaped a runaway inflation.

We have it in our power to make the adjustments necessary in 1948 gradually, industry-to-industry, and without calamity. But we should remain vigilant.

There are several steps we can take now to further strengthen our position.

Labor, business, and farmers can help by working together to stimulate production in all lines. Wartime controls have been removed as rapidly as has been feasible, and the actions of all individuals now influence the tempo of our business activities directly.

Businessmen can help by holding prices and lowering them as quickly as practicable -- working on the principle of high volume operation and a low margin of profits. Labor can help by the exercise of moderation in demands for wage rate increases which necessitates price rises. Restraint at the moment must be our watchword.

Government, with the help of the major economic groups, can then render further assistance as a stabilizing influence. The level of federal, state, and local spending should be established with great care. We should be careful not to expand our spending for public works at a time when such action might cause further pressures for price increases in the construction field. Such

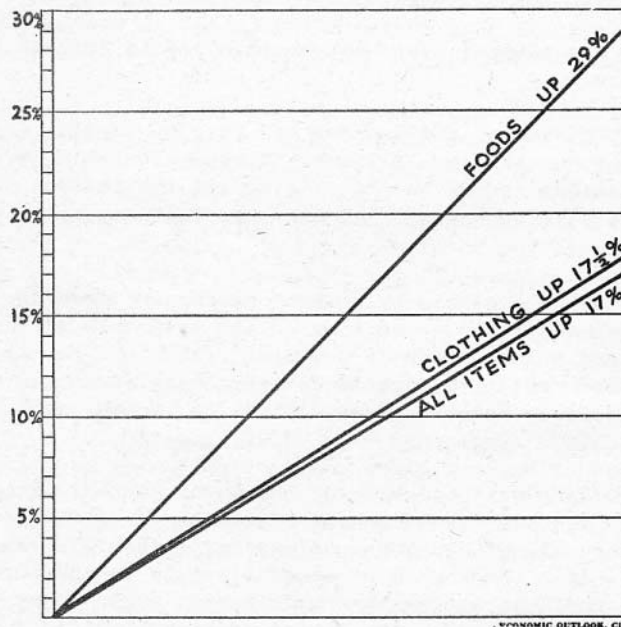
spending might better be held back until a time when it is needed to take up slack. At the present time, we should be generous and farsighted in our treatment of veterans, but we must not be extravagant.

As we work to improve the regularity and the stability of our economy, the eyes of the world will be upon us. We have become the economic and financial pivot of the globe. Our productive capacity is unrivalled by that of any other country. If we succeed in stabilizing our economy, we will create an environment in which people around the world will have a brighter hope for security and rising standards of living.

We Americans can, if we work together, maintain and raise our standard of living, and we can remove the blight of economic insecurity from our own country. In so doing, we will set an example for the rest of the world that will establish the unchallenged superiority of our way of life. While we work for our own prosperity, we will also be working for peace.

RETAIL PRICES, since OPA expired

Percent Increase, June 1946 to May, 1947





BY KERMIT EBY

of the C.I.O. Research Board

Among those factors affecting the national economy and which determine, in the long run, whether we are to enjoy prosperity or suffer another depression are profits, employment, foreign trade and weekly earnings. We shall attempt to examine these factors in order to come to a conclusion and to offer a positive program so that these factors may be kept in balance.

I. PROFITS

Corporation profits in the first quarter of 1947 were higher than in any previous period. If these corporations continue to earn profits at the same rate as that attained in the first quarter, 1947 will be the best profit year in their history. Figures show that profits for the first quarter of 1947, if multiplied by four and thus put on an annual basis, were running at the rate of \$3.5 billion. The best previous year since 1939 was 1946 when these same corporations earned \$2.5 billion. The average during the war years 1942-1945 was \$1.8 billion. Profits in 1947, if they continue at the same level attained during the first quarter, will be almost double what they were during the war.

II. EMPLOYMENT

In May, 1947, total employment reached an all time peak - 58²/₃ million. In spite of this, employment in manufacturing industries has steadily declined since March, when 15,511,000 industrial workers were employed. In April, this figure dropped by almost 100,000. It dropped another 150,000 between April and May. Total industrial employment in the months between March and May declined, therefore, by 250,000 workers, mostly in three industries. Textile and apparel industries lost 143,000 workers, and the rubber products industry, including tires and tubes, lost 16,000 workers.

In spite of the new peak in total employment, we must beware of those areas where spotty unemployment is beginning to appear. The main reasons for peak employment in May was an increase of almost 1.5 million workers in agricultural establishments and an increase of workers in the construction industry; although employment in electrical, textile, apparel and rubber is declining because the demand for these products is beginning to fall off, mainly due to price levels being too high. Besides, shortages of materials are forcing shut-downs. In the automobile

industry, in late April and May and again in July, workers were laid off because of the lack of sheet steel. Steel and electrical employment are also falling off because of shortages of materials.

III. EXPORTS

We are now shipping to foreign countries almost \$12 billion a year more goods than we receive from them. The most recent month for which figures are available is May, 1947, when we exported some \$17.4 billion worth of goods and imported \$5.7 billion worth. The difference between these two is \$11.7 billion. This is the extent of our excess foreign shipments over receipts or imports. In 1946 the difference between exports and imports was only \$4.8 billion. Never in the whole history of America has our foreign trade approached the level attained this year. During the peak of the war, in 1944, exports exceeded imports by only 3 to 4 billion dollars. In 1920, exports were only \$2.9 billion above imports. All during the prosperous 20's, except 1928, the excess of exports over imports never exceeded \$1 billion.

Our current rate of foreign trade is contributing greatly to the maintenance of relatively full employment and full production, but how much longer we can continue to export at these rates depends upon two very important factors. Either we must increase our imports to enable foreign countries to pay for our material; or the foreign countries must secure American loans to pay American dollars for American exports. Unless we do at least one of these two things, our export trade will, of necessity, decline, because American money and assets held by foreign countries are quickly being exhausted.

IV. WEEKLY EARNINGS

In May, 1947, average weekly earnings of workers in manufacturing industries reached their all time peak of \$48.86. The previous peak was \$47.50 in January, 1945. The wage settlements of 1946 and some of the 1947 wage adjustments are reflected in this May figure. High weekly earnings, however, are not altogether significant. We must consider these earnings in terms of purchasing power.

Weekly earnings are over 100 per cent above those of 1939. But in terms of 1939 dollars, take-home pay has increased from \$23.62 to \$30.16; less than 28 per cent. In 1939 the average worker in manufacturing industries earned \$23.86. Assuming that he was the head of a family of four, he would have paid about 24 cents in federal taxes. His take-home pay was therefore \$23.62.

By May, 1947, prices had increased about 56 per cent, thus reducing this man's weekly purchasing power by \$17.17. Taxes had increased about five fold so that he is now paying \$1.53 in federal taxes per week. This means, that in terms of purchasing power, the May, 1947, earnings (\$48.86) would buy only \$30.16 worth of merchandise. This is only a \$7.00 increase over the purchasing power of the 1939 earnings.

It is difficult to predict what will happen in the future, because our economy is so complex. But we have pointed out a considerable number of trends, which, if continued, would have serious repercussions.

V. CONCLUSIONS AND PROGRAM

To avoid a recession and foster prosperity, Congress must take positive steps in developing an economic program for full production, employment and purchasing power. The program outlined below, presented by Emil Rieve on behalf of the C.I.O., is aimed at attaining these goals.

1. Establishment of a Federal Price Investigation Board, whose job it would be, by use of public pressure and exposure of profiteering, to bring to light the reasons for current high prices.
2. Should this country follow the Marshall Plan for Europe and if crop failures develop because of floods in the Mid-west, price control and rationing should be re-established.
3. Overhauling and revamping of our tax structure.
4. Immediate adoption of an amendment to increase minimum wages to 65 cents, and advancing to 75 cents within two years; and to extend coverage to those now outside the present minimum wage law.
5. Increase of social security benefits; reduction of retirement age; and expansion of coverage.
6. Adoption of a national health insurance and public health program; and appropriations to build new hospitals.
7. Passage of a fair employment practice act.
8. Federal aid to education in order to provide equal educational opportunities for all.

9. Conservation of natural resources, including preservation of the fertile soil which produces abundant crops.

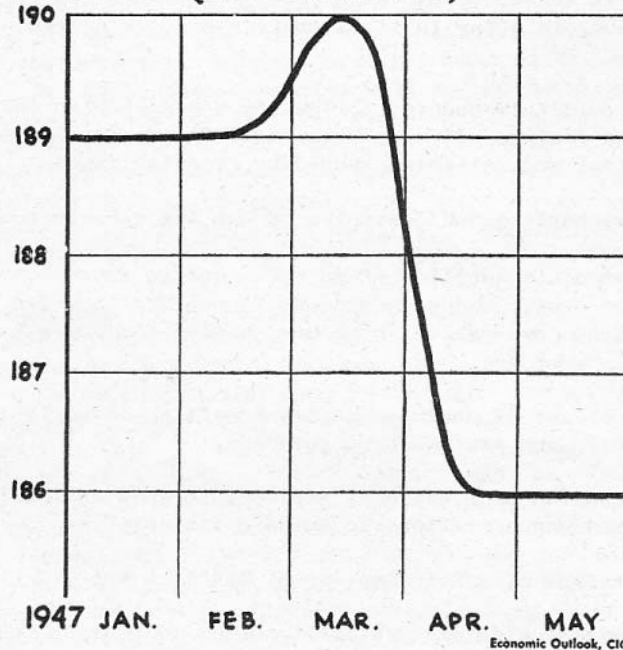
10. Appointment of a Federal Monopoly Investigating Board to make continuous studies and reports upon monopoly concentration in American industry.

11. Development of an over-all farm program to assure equitable distribution of farm income. Also, adoption of a food stamp plan to make available vitally needed food to low income individuals.

12. Extension of river valley authorities, such as TVA, to other great rivers to prevent floods and develop cheap electrical power.

13. Building of 1 to 1½ million homes a year for the next ten years, a large proportion of this need being met by the Federal Government.

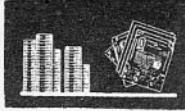
INDUSTRIAL PRODUCTION, 1947 (1935-39 AVERAGE = 100)



INFLATION AND CAPITAL EXPANSION

by

PROF. HERBERT SPERO

*Department of Economics,
The City College*

How can we judge the success of a business economy? Mr. Paul G. Hoffman, chairman of the Committee for Economic Development has aptly answered this question in his address before the Herald Tribune Forum. ".....an economic system should be judged by what it does for people and to people. Specifically, how does it rate as a creator of wealth and a distributor of wealth, and how does it effect the opportunity of people.....to make maximum use of their capacities..... and develop socially, intellectually and spiritually as well as materially?"

The year 1947 has been marked by economic developments which must be controlled while constructive forces are set in motion if our business system is to do things for our people and to our people. Dependent upon this redirection of economic forces is the health and well-being of our capital goods industries and our capital markets where funds are obtained for constructive business uses vital to the maintenance of employment and business profits.

Economists and business men recognize that a sound economy depends upon the maintenance of adequate mass consumer purchasing power. The development, expansion and growth of public buying power is an assurance of business profits and of a ready flow of capital into productive channels. However, there are certain danger signs on the economic horizon which must be dealt with effectively if business is to enjoy large profits and the capital markets to exhibit real strength.

What are these danger signals? How can they be coped with? Let us attempt an answer to the first question. The sharp upswing in prices since the end of price control has hit the consuming public hard. Any continuation of this trend can only impair public buying power with all the unfortunate consequences to business and the capital market. In the last fifteen months, average prices to consumers increased four times as much as during the preceding three years when price control was on the legislative books. To point up the situation note should be taken of a rise in the cost of living by about 20 per cent while food prices alone have jumped 40 per cent.

A continuance of the upward trend can only mean an imbalance between industry's capacity to turn out goods and the public's

capacity to absorb these goods at a profitable figure. Already the inflated price structure is having its effect on retail sales. The actual volume of goods sold is smaller by fifteen per cent today than a year ago.

Evidence is readily available to indicate the inroads of a rising cost of living upon consumer buying power. The United States is saving less - much less than during the war period. For example, in 1944, the American people were putting 25 to 30 cents out of every dollar they earned into savings bonds, insurance or savings bank accounts. The picture is not so bright today, for we are saving only 10 cents out of every dollar earned currently. As our savings shrink under the inflationary pressure of a rising price level, private investment must contract because of the declining consumer goods market and the shrinkage in the capacity of private savers to buy securities.

The inflationary situation has cut so seriously into general buying power that while the Department of Commerce reports consumer income more than double that of 1939, nevertheless according to the Federal Reserve Board outstanding credit obligations have risen by 37 per cent since the close of 1939. Furthermore, our personal debt is about 33 per cent higher than it was in 1945. Undoubtedly, some of this increase can be attributed to the reappearance of various consumer items on the market and the public rush to acquire the scarce goods even at the cost of incurring additional debts. On November 1, 1947, the barriers on installment credit disappeared therefore we can look forward to a marked rise in installment credit. Taken together with the shrinkage in savings, the obvious decline in the buying power of the dollar and the post-war advance in personal credit obligations, we have every reason to believe that borrowings will take place to cover regular living expenses as well as to catch up on the purchase of durable consumer goods.

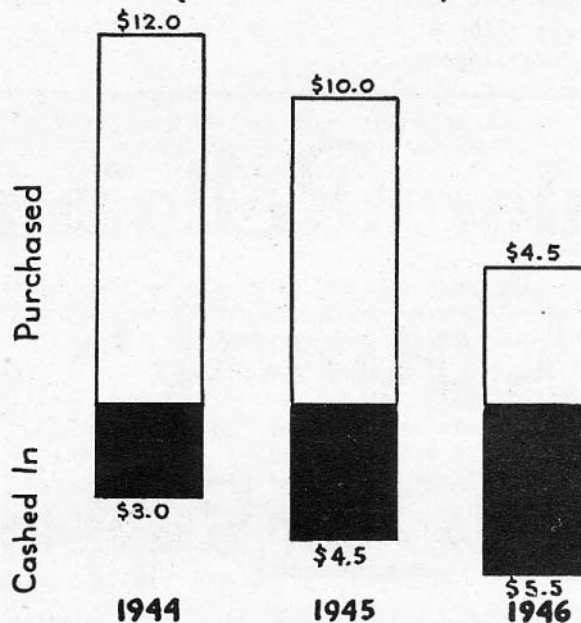
Financial commentators as well as the Treasury have urged that inflation be fought by the purchase of U. S. Government Series E Savings Bonds. The success of such a program is dubious in the light of the country's past experience with the Series E program. Sales of these dropped to \$4.5 billion in 1946 as against a peak figure of over \$12 billion in 1944. Over this same period redemptions rose from \$3 billions in 1944 to about \$5.5 billion in 1946. In as much as redemptions exceeded sales in 1946 it could readily be concluded that the plan popular savings plan has become a popular redemption plan. Under these circumstances, the sales of Series E Savings Bonds would be a fruitless gesture in the fight against inflation and in the effort to maintain consumer's markets - the necessary condition for a health productive organization and a flourishing capital market.

President Truman has called a special session of Congress "to take legislative action designed to put an end to the continued rise in prices, which is causing hardship to millions of American families and endangering the prosperity and welfare of the entire nation." While the administration has taken cognizance of the vital tie-in between the American free enterprise system and the maintenance of consumer buying power, specific recommendations for dealing with inflation have been postponed until the opening of the special session of congress. The writer takes leave to suggest a program of price stabilization helpful to business and investment.

An effective plan should include these measures:

1. Basic grain and industrial products prices should be placed under such ceilings as will maintain the buying power of the dollar and yield a reasonable profit to industry and the farmer;
2. To assure the American market, as well as those nations in distress to be aided by the Marshall Plan of a steady flow of vital goods, the voluntary food savings plan should be replaced,

Series E War Bonds Purchased and Cashed in (BILLIONS OF DOLLARS)



if necessary, by an effective rationing system which will put all segments of our economy under equal restraint. These two measures alone will assure the success of our European recovery program and increase the buying power of the meager supply of dollar exchange still in the hands of our distraught friends abroad. A rising price level cripples the foreign exchange value of the dollar held by needy foreigners;

3. The rationing program should be supplemented and accompanied by an effective allocation scheme which will direct the flow of essential goods and services into the most vital channels;

4. Maintenance of a tax rate and the development of a public debt retirement plan that will eliminate and withdraw from circulation all excess buying power above our present limited supply of goods. Venture capital can still find adequate opportunities for investment outlets even in the light of a high tax rate, for business profits have been very attractive. The new issues market need not dry up under the present burden of individual and corporate taxation. It is more likely to disappear if we experience a boom and bust, the usual aftermath of a zooming price spiral. A high tax rate during the current period of prosperous business also will yield the federal government large revenues to be used for retirement of a goodly portion of the bank-held government securities. Such a procedure would be anti-inflationary for it would demonetize a portion of the outstanding federal debt.

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LOTTERIES AS A SUBSTITUTE FOR TAXES ---
SOME ECONOMIC CONSIDERATIONS

by

ARNOLD H. DIAMOND
*Department of Economics,
The City College*

From time to time the suggestion has been made that New York City adopt some form of a lottery to provide additional funds to assist the hard pressed municipal finance situation. The New York Daily News has given editorial support in favor of these suggestions and Councilman Joseph T. Sharkey has given prominence to the issue when he announced his intention of introducing a bill in the City Council creating a lottery to finance the rehabilitation of the city hospital system.

Lottery advocacy reappears as a financial panacea everytime it looks as if the government has reached the maximum yield from the available tax resources and is faced with an increase of expenditures. The current financial position of New York coupled with the recent advocacy of lotteries seems to make the subject of lotteries worthy of an examination as to its economic possibilities.

A brief survey of the history of lotteries would note that one the earliest American colonies, the Virginia company under the direction of Smythe and Sandys, was financed via a lottery held in England. Lotteries were used to finance the construction of canals and turn pikes during the early years of this country. Educational institutions such as Harvard and Columbia (then known as King's College) had their early expansion financed from the sale of lottery tickets. Yet, in spite of these illustrious precedents, most of the major western world countries deemed it advisable to prohibit lotteries. England banned them in 1826, France in 1836, and the U.S. forbade them in 1876.

The current legal status of lotteries is that both New York State and the Federal Government have regulations prohibiting the sale of lottery tickets. New York would punish violators of the law by fines of \$1,000 or two year's imprisonment or both. The federal law prevents the use of the mails, the mailing privilege by publications, and the use of the radio for the offering or aiding in the sale of, lotteries. Thus it would be necessary to change both state and federal statutes to allow an effective lottery to operate. The worthiness of such an enterprise is the subject of the remainder of this article.

FISCAL ASPECTS

In examining the fiscal aspects of a government lottery one

would have to answer three major questions. 1. Is a Government run lottery a tax? 2. Is it a good source of revenue? 3. Are there better sources of governmental revenue?

If Prof. R. M. Haig's definition of a tax as "a compulsory payment by an individual to defray the expenses of government without regard to any special benefits accruing to the taxpayer" is used as a standard for the determination of a tax, one must conclude that a government lottery is not a tax. There is no element of compulsion involved and the lottery player obtains an opportunity to win a prize upon paying the purchase price of a lottery ticket. No compulsion plus the receipt of a benefit should mean "no tax".

However, a distinction ought to be made between the "de jure" and the "de facto", between the real and the apparent. It is true that no one is compelled to buy a lottery ticket from a government-run lottery office; but is this lack of compulsion equivalent to the voluntary purchase of a lottery ticket from a private lottery? It is obvious that the state would create a fiscal monopoly in order to avoid the possibility of a loss. One does not expect the state to compete with private endeavors but the purpose of the lottery would be to yield a revenue to the public treasury. The state would undertake to operate a lottery monopoly, prohibiting all privately conducted ones, so that the lottery player then is faced with the alternative of either buying a government lottery ticket or not playing the lotteries.

If one of the functions of state lotteries is to allow the government to take advantage of the "natural human propensity to gamble", it seems that the previous conclusion about the tax nature of state lotteries should be modified. Similarly, it can be argued that the receipt of a lottery ticket entitling the holder to partake in the lottery is not actually a benefit but merely an intangible that has no value (except possibly the intrinsic value of the ticket) unless the individual is fortunate enough to win -- against tremendous odds. Thus the individual is contributing to the government with obtaining any real benefit.

Finally, it should be noted that a state run lottery means that the sovereign state wants its citizens to participate in the lottery. Heavy government advertising in behalf of the lottery together with the stamp of government approval would add a certain amount of respectability that otherwise would not exist. A state run lottery wouldn't have to pay "protection money" to the police nor would there be any fear that the state would not pay out the prize money. Witness the recent drive against bookies

in New York City and the resultant shake-up in the police department. In such ventures as lotteries, which are fraught with suspicion of fraud and dishonesty, such state approval may well sway the more timid citizen towards the purchase of a lottery ticket.

To determine whether the lottery is a good source of revenue, analysis should be made of the shifting and incidence of the lottery and the question of equality.

Because the purchase of a lottery ticket depends upon the individual's decision to do so (such decision being based on the size of his income, his desire for the prize, and his propensity to gamble), it seems unlikely that the individual would attempt to shift his "contributions to the state" either forwards or backwards.

The problem of equality is the crux of this entire analysis of lotteries. If the total sacrifice, measured in terms of utility satisfactions, is smaller than the loss of satisfaction due to other types of taxes, then the lottery would be a good source of revenue. In other words, are lotteries progressive, proportional, or regressive taxes? On the basis of previous observations one must conclude that the state lottery is highly regressive. It is not expected that the wealthy will invest a large part of their incomes in lottery tickets where the probability of success is very small when they could invest in securities where the yield is a virtual certainty. Likewise, it seems unlikely to expect a purchase of lottery tickets proportional to the size of the income. Rather it appears that the smaller the income size the more likely is the individual "to take a fling at Lady Luck", to improve his economic position. Thus it would seem that a lottery would be progressively regressive, increasing in contribution inversely with the size of the income. In fact, as the state attempts to attract more lottery purchases by reducing the price of the ticket, this trend will be accentuated. The price may be so reduced that the comments of Adolph Hepner again would be apropos.

"We cannot and will not conceal, nor circumscribe the fact, that the "nickle slot" is aimed at the pockets of the poorer classes, the working man directly.

"Well to-do people have many other chances to make a so-called "honest dollar" and wouldn't indulge in "nickel slot" gambling, except sometimes for fun only.

"The poorer a man is, and the less chance he has to enrich himself, the more enticing may prove for him a supposed opportunity, to make a little money out of a harmless nickel".

The regressive nature of the lottery causes one to look elsewhere for additional municipal revenues. It is not within the purpose of this article to suggest such additional sources. However, the high regressivity of the lottery would tend to rule it out as a desirable source.

OTHER ECONOMIC CONSIDERATIONS

After nothing some of the surface manifestations of a government lottery it perhaps would be to some advantage to examine a few of the underlying factors involved in the advocacy of a lottery.

The assumption is made that those who urge the use of lotteries for government revenue purposes also advocate the retention of the capitalistic system. Without getting into the Keynesian controversy over the efficacy of savings, it seems somewhat contradictory to urge savings for capital formation purposes on one hand and to urge on the other the dissipation of such savings (perhaps to the detriment of subsistence consumption) in chance ventures such as lotteries.

Have the advocates of state lotteries accepted the "economic maturity" thesis, which limits the possibility for new investment opportunities, so that savings should be turned to a large game of chance to determine the allocation of the existing supply of goods and services? If prudent investment of the accumulation of savings provided the capital for the current high level of capitalistic production, what function shall the chance ventures perform?

One has been led to believe that such advice as Thomas Jefferson's "Savings for the purpose of being independent" was the proper course of economic decision. However, if it suggested that an addition to one's income can be procured merely by the purchase of lottery ticket, why bother to save at all? On the other hand, a denial of the possibility of winning the lottery would remove the last vestige of benefit that could be attributed to the lottery.

The subject of economics deals with the production and consumption of goods and services with some emphasis on the functioning of the exchange and distribution systems. One is at a loss, however, to ascertain the place of lotteries in the economic system. The exchange of a value (money) for a non-value (lottery ticket) appears to be economically illogical. Can an unknown Bohm-Bowerk offer a "roundabout" theory to explain how this non-value suddenly evolves into a great value (prize money) and yet deal in terms of economics? Perhaps heed should be tendered to the courts' view on this subject when they wrote,

"It encourages in men and women the gambling instinct and the propensity to sustain life on the industry and earnings of others. Idleness, pauperism, and crime are some of its bitter fruits. It helps to destroy the initiative essential to individual livelihood and good citizenship."

The degrading effects of lotteries upon the individual is still a matter of dispute. When the last major wave of lottery advocacy was a vogue the following two views presented more or less, each side of the controversy. It is left to the reader to judge the more logical.

"It is doubtful, however, whether any sane person would quit his regular employment simply because a legally

acquired slip of paper gives him one chance in about 20,000 of winning a fortune. If the proceeds of a national sweepstake were earmarked for old age relief or some other humanitarian purpose, the average citizen would gladly contribute his quota; and if Dame Luck failed to favor him, he would be satisfied with the excitement derived from the imaginative possibilities of sudden riches."

"Application to one's job, patient thrift, were subject to sneers, Madness was upon the people. Grogshops adjoining lottery ticket offices were thronged from opening to closing. Bulletins were rushed to such places upon receipt of news of the drawing results. With ticket holders drinking in anticipation of sudden fortune. Men and women ruined by lottery play, cadgers hanging on because of the practice of winners to buy drinks for the crowd."

The attack upon individual morality that an introduction of lotteries presages is perhaps its most serious contribution. Historically, we have slowly tamed the animal instincts which made for emotional anarchy of conduct. The goal of society is supposedly an attainment of more rational conduct. John Hobson considers the practice of gambling as "a deliberate reversion to those passions and mental attitude which characterizes the savage of pre-human man." He further writes, "Based as it is on an organized rejection of all reason as a factor, it removes its devotees into a positive atmosphere of miracles, and generates an emotional excitement that inhibits those checks which reason more or less construes to place on emotional extravagances." Whiter mankind!

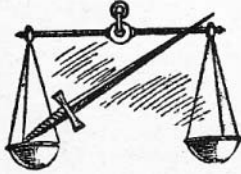
A concluding note should be made of the possible effects a state lottery may have upon government morality and corruption. The history of previous attempts at state sponsored lotteries is filled with tales of fraud, dishonesty, and corruption of legislatures and governments. To invite a repetition of this sordid history does not, at this writing seem to be worth the possible additional revenue that the lotteries would bring to the Public Treasury.

*"A lottery is a taxation
Upon all the fools in creation
And Heav'n be praised
It is easily rais'd,
Credulity's always in fashion;
For Folly's a fund
Will never lose ground
While fools are so rife in the nation.*

℄ § 2

"It is said this manifesto was more than a theory, that it was an incitement. Every idea is an incitement. It offers itself for belief, and if believed it is acted upon unless some other belief outweighs it or some failure of energy stifles the movement at birth."

- Oliver Wendell Holmes



WHAT WILL THE NEW LABOR LAW DO?

by

WILLIAM LEVINE

Editor, The Business Bulletin

After five months of debate, amendment, veto and overriding the Labor-Management Act of 1947 became law. The Taft-Hartley Law (as the Labor-Management Law is popularly known) is a piece of legislation full of complexities, ambiguities and innuendos; it is not to be easily understood without carefully looking at its background, its particular provisions and its possible effects. That, in short, is the purpose of the article.

In the second session of the 79th Congress a piece of legislation was passed embodying heavy restrictions on unions. It was called the Case Bill and it was called unfair by the President who promptly vetoed it. Congress sustained the veto and apparently the legislation was dead.

However, in the Congressional campaign of 1946 its Republican sponsors resurrected the old bones; they condemned the administration for perpetuating a labor monopoly and refusing to allow Congress to liberate the nation from this monopoly.

The Republicans received a thumping triumph in the election and took over control of Congress. Their labor reforms were considered a basic part of their platform and they consequently introduced legislation to curb union power. They frankly stated that the purpose of the law was to eliminate the abuses of labor existing under the Wagner act and to make for more equality between employer and employee.

To attempt to run down all the hills, gullies, cliffs and subterranean clauses of the Labor-Management law would be a job difficult for me to write and for you to understand. In order to make the problem realistic and tangible I'd like to go through the chief problems which will baffle, restrict or liberate the workers.

Let us imagine that a worker, who we will call John, is a member of a union and works for a firm that has a closed shop agreement. When the union's present contract expires, since the closed shop is against the law, the employer will sign a contract without the closed shop. This doesn't affect the worker, one would think, because the new law calls for a union shop.

What is the difference between a union and a closed shop? In a union shop you have to join the union only after thirty days of employment. The employer thus has free choice in the labor market. Under a closed shop an employer must only employ men who are already

members of the union. This apparently does not effect John too much but the new law adds a new ingredient not seen since the early thirties. An employer is not required to engage in collective bargaining and recognize the union of the workers except under conditions of *free* collective bargaining. This means that if the union shop has an unscrupulous employer, John may find himself working in an open shop (a shop with both union and non-union help). It would work like this. The employer hires key skilled workers from non-union ranks choosing these workers because he knows they will not like the union. He will refuse the union shop demand at the following contract negotiation. He will be in a position to successfully beat any strike because his newly acquired workers will remain at work.

John's union, if it intends to live up to the law, must file certain information with the National Labor Relations Board (NLRB). Among other things, such as a non-communist oath, the union is required to file its financial statement. It would seem that it would be honest to see how much money the unions have and how much their officers are paid. This is on the surface a logical and quite justifiable requirement but an active trade unionist or industrial relations man could tell you that the information in the hands of an anti-union employer could be quite dangerous. The employer would be able to gauge the strength of a union's finances, know when a strike was impossible and when it would hurt a union. He could very well destroy many weak unions with this knowledge.

These are (to me) the salient features of the new law but there are many other important provisions which space doesn't allow me to fully analyze.

The checkoff, which enables employers to collect dues for the union, is abolished. No welfare funds may be handled exclusively by the unions. No union of supervisors will be allowed. No coercion may be used to bring members into unions or to make employers recognize unions.

The jurisdictional strike has been banned. However, it is reasonable to assume that it will exclude organizational disputes; if this provision works effectively it may save both unions and employers needless expense. It *looks* like a real constructive step in contrast to its dubious bedfellows in the law. Secondary boycotting which is boycotting or picketing of a company that sells or uses goods from a firm whose workers are on strike has been abolished. It has formerly been a powerful weapon in the hands of unions. It has enabled them to cut off the income of the struck plant. The reason for its abolishment is fairly clear. Congress felt that an establishment having nothing to do with a dispute suffers needlessly. It's application must be waited for in the interpretation of the courts. The last important provision we should mention is the right

for the employer to sue for damages. This provision could easily destroy many weak unions.

We have now taken a rather hasty look at the provisions of the new labor law. But what does it all mean? Most legal opinion in the United States agrees that the courts will modify the act but that the principal provisions curtailing union activity will remain intact. This means that the unions have a period of great anxiety, worry and down right fear ahead of them. Their concern is based on two points: 1 - The trade union movement may be halted, smashed or at least weakened by the law. 2 - that the cut in union power will ultimately affect wages and bring about a loss of consumer purchasing power and with it a smashing depression.

Let's look at these possibilities. The unions feel that as their power is curtailed, they will become less attractive to workers. In addition, the anti-union employers have many new weapons with which to hurt the unions. The union treasuries will be taxed by organizational drives attempting to make union membership more desirable; this will make them more aggressive to get workers' demands satisfied. The employers will react to this aggressiveness by using everything in their power to hurt the unions. Industrial relations will go from bad to worse: unions will strike, boycott, picket and organize; employers will sue unions, lockout workers, fight collective bargaining. A group of new weapons have been given to anti-unionists. It is doubtful if the labor movement is strong enough to withstand it.

The second argument runs naturally from the first. As the unions are weakened and as the employers get their desired open-shop, wages will be forced down. When the general level of wages fall consumer purchasing power goes with it. The market for goods close up and factories, having nothing to supply, close. As they close the factories, workers, of necessity, are discharged giving rise to unemployment which cuts purchasing power further. The end result of this is what the business man calls periodic upheaval, the workers call hard times and the economist calls depressions. Most union people are taking this position on the probable effect of the new labor law but there are some possible mitigating factors which the unionists haven't taken into consideration in their analysis.

The first and primary factor is that many employers who were habitually hostile to organized labor have learned something new in the last ten years. These men who were forced to accept unions at first now see that their workers give better production, and better work when they are given union security. They will work more efficiently when they receive good wages, short hours and have security in their jobs. Most employers are interested in low pro-

duction cost and have learned that the best labor isn't always the cheapest. They will not wish to break up this efficient production for the sake of a union busting binge.

A second factor to be considered is that organizing workers is an expensive job and when a union has a closed shop, it can afford to be lazy about workers' complaints. The union just has to collect dues and bargain once a year. The Taft-Hartley law will make the unions militant, take away their lethargy, and it may make the unions stronger than they are now.

There are other factors of this type we could cite but space doesn't permit, so let us sum up our case:

1 - The Taft-Hartley Law stems from an anti-union crusade and is intended to weaken the union movement.

2 - If the employer uses all of the restrictive measures embodied in the law and unions do not meet the challenge, the labor movement in the United States may be destroyed.

3 - The law may prompt unions into greater activity and hence be a stimulant to union growth.

This, I think, is the essential import of the new labor law. It is a topic where many prejudices and personal bias' exhibit themselves and block effective understanding. I have tried to sift through the prejudices to give an honest answer to one of the most crucial and perplexing problems of our time.

⋄ § ⋄

"The vital point in business practice is the vendibility of the output, its convertibility into money values, not its serviceability for the needs of mankind.

- Thorstein Veblen



BOOKS IN REVIEW

ECONOMIC POLICY AND
FULL EMPLOYMENT

by

ALVIN H. HANSEN

New York: McGraw-Hill, 1947

An authoritative exposition of the full employment program, this latest product of Dr. Alvin Harley Hansen, who holds the Littauer Chair of Political Economy at Harvard University, also constitutes a defense of the compensatory fiscal policy against the attacks that have appeared since his earlier writings.

The general plan of the book is to present the background and economic theory necessary for the proper understanding of our present economic status and to explain the author's basic policies designed to obtain sustained full employment. He also describes what England, Canada, Australia and Sweden have done along these lines and attempts to demonstrate the flaws in several alternate proposals.

The major economic tools and ideas which Professor Hansen would utilize in attaining a full employment economy include:

1. Manipulating the tax structure in order to achieve the desired volume of private consumption and investment. This would necessitate a Congressional grant of administrative power to alter the tax rate as an aid in avoiding excessive economic fluctuations.
2. After an examination of the importance of the variations in interest rate, Professor Hansen concludes that, as a countercyclical device, its effect is to undermine sound investment and that the aforementioned tax manipulation is far superior.
3. For insuring full employment, the author urges that we plan for a national product large enough to employ the entire working force and so divided between consumer expenditures and capital investment, and between public and private products, as to reach an optimum of usefulness.
4. As a leading part of a compensatory program, the author would have prepared a roster of public expenditures which would be instituted when the rate of private capital formation reaches a certain point of decline.
5. The variation in the tax rate and in the amount of governmental expenditures would be the twin blades of the major tool used in reducing the severity of economic fluctuations and, thusly, in maintaining sustained full employment.

Taken as a whole, this material is not exactly new. The 1947 statement of compensatory economics is essentially a twice-told tale. However, "Economic Policy and Full Employment", in the parts where the author attempts to strengthen the presentation so that it may better withstand the attacks of the various critics, sounds much like the rebuttal in a debate rather than a volume "for the students of economics in universities and colleges as well as for the serious general reader."

This leads to another criticism. For the average interested student of economic analysis, there lacks the sufficiency and continuity of treatment necessary to full comprehend the significance of the proposals. Although the avowed plan of the book involves a logical sequence, there appears too great a break down of subject. With some hard work there is obtained a complete grasp of the importance of compensatory spending.

The preface contains an admission of using part or all of various articles and addresses of Hansen's published elsewhere. That, of course, might explain the apparent shortcoming.

"Economic Policy and Full Employment" does serve a useful function in highlighting the short-run problem of inflation and reminding us of the basic long-run problem of preventing excessive variations in economic activity with the attendant unemployment, curtailment of consumption and investment and psychology of despair.

⋈ § ⋇ *Murray Weidenbaum*

"The three problems of the age - the degradation of man by poverty, the ruin of women by starvation, and the dwarfing of childhood by physical and spiritual night."

- *Victor Hugo*



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