Hayes, Harry Gordon

Convocation address, March, 1930

Commercement Address
Ohio State University
March 14, 1930

ECONOMIC INTERDEPENDENCE AND SOCIAL CONTROL

H.Gordon Hayes

For four years, more or less, you who are being graduated today have been exploring various fields of thought with the members of the faculty of this University. It is my function this afternoon to take you on your final tour of exploration before you receive the degrees that are awaiting you. This exercise differs, however, from the others that have preceded it during your course here. You will not have to pass an examination on it before getting the degree.

We are living in a new world. Most of you are unaware of this because you have been observing the things about you for such a very short period of time. 1930 is not 1920, nor 1910 and decidedly not 1880. The most fundamental element in the changing social processes of today is that complex of forces that we name economic. These have changed profoundly during the past decade. We are in, and have been in, a tremendous industrial revolution.

The electric telegraph is less than 100 years old and the telephone is a great deal younger. The petroleum industry began only about 1860. The 50th anniversary of the incandescent lamp was celebrated last year. The first practical overhead trolley street car ran in Kansas City in 1884. The use of electric power in manufacturing was just getting under way in 1900. The automobile, the airplane, and the radio are all products of this century. It was very late in the last century, when legislation in New Jersey made it possible for one corporation to own the stock of another

corporation, without special permission from the state, and hence made possible the formation of the giant industrial combinations that are now so commonplace. In 1901 the U.S. Steel Corporation was formed by the consolidation of 10 steel companies. It now includes 174. At the time of its organization it was capitalized at over one billion dollars. It was the first billion dollar corporation that the world had seen. We now have three steel combinations each with a capitalization of one billion dollars or more. Along with these things that are so easily catalogued should be included marked improvements in railway transportation, in water transportation, in manufacturing processes, and in agriculture.

These various agencies and processes have profoundly affected our economic life. They have given us something over six hundred million horsepower in the United States. Another phrasing of this is that our various mechanical devices have increased human power in the United States thirty times.

100 years ago, a large part of the total economic effort of the nation was devoted to the raising of food and as late as 1850, eight out of every ten persons lived on farms. By 1909, less than 25% of the persons gainfully employed worked on farms and within recent years there has been a still more marked decrease, - the present number is about 15% of the total.

The release of labor from agriculture, together with the amazing changes in industry have greatly enlarged the economic product. This has permitted a higher standard of living for the American people than the world has hitherto known. Among other things it has made possible Universities such as our with thousands of students largely withdrawn from economic pursuits. It is only a society

that is highly efficient in the production of economic goods that can devote the energy that we do to education. But this phase of the matter does not especially concern us this afternoon.

Rather, we are interested in the high degree of economic interdependence which is a vital part of our present economic society. More than 3/4 of the persons who are gainfully employed today are employees. Only 1/4 of the gainfully employed work for themselves, as farmers, shop keepers, physicians, etc. The chances are that there is not a single one among you who is going to work for himself. You will be employees.

A similar situation obtains so far as ownership is concerned. Almost all persons who have money to invest turn it over to other persons. The case could not be otherwise in a nation of employees. And even the relatively few who use their own money in their own businesses and work for themselves do not consume the things that they produce. They sell their products and buy the things that they consume. And this extensive selling and buying goes on in national, indeed, in world markets.

This means, of course, a very high degree of mutual dependence on the part of all of us. Economically "we are members one of another." What a contrast with conditions 100 years ago, when most of the people were farmers, and as farmers were largely self dependent. They produced their own food, clothing, furniture, houses, barns, and most of their own tools. There was some buying and selling, some borrowing and lending, some hiring out to others, but not much, and what there was was largely confined to the South and to the eastern sea-board. The typical family stood alone. The principles of Robinson Crusoe economics were largely applicable.

The totality of life in that time may have been more satisfactory

than life today. This paper is not concerned with that point. It is concerned with the relation of our increasing economic interdependence to the question of social control. Immediately, at any rate, this is taking the form of an extension of the power of the government over economic affairs.

Whether we look at the volume of our laws, the number of boards and commissions, the taxes that are paid, or the number of government employees we see striking evidence of growing political power. One out of every 16 persons who are gainfully employed in the United States works for some branch of the government. 18 years ago the proportion was 1 to 21.

In the 33 years from 1890 to 1923, the total taxes paid to all branches of government in the United States increased from $13.50 per capita to $91 per capita. After allowing for the change in the price level between these dates, the per capita increase was 350 per cent. In 1890, taxes represented 7% of the total national income; in 1923, 15%. And since 1923 the total tax receipts have continued to increase.

In the various states we find highway commissions, industrial commissions, public utility commissions, factory examiners, food inspectors, bank examiners, and movie censors. Looking to the nation we note the Interstate Commerce Commission, the Federal Reserve Board, the Federal Trade Commission, the Water Power Commission, the Federal Farm Loan Board, the Grain Futures Administration, the Packers and Stockyards Administration, and the newly established Federal Farm Board. Incidentally, all of these with the exception of the first named have been established since 1913. These government agencies are all part of our economic system, and they are an inevitable part of our high degree of economic interdependence. As the economic interests

of countless individuals impinge more and more upon each other, rules and regulations that were uncalled for in a simpler society become imperative.

Further, the national power is constantly encroaching upon the powers of the individual states. This, too, is seemingly inevitable as economic interdependence is to an increasing degree extended across the boundaries of the several states. But this is not all. National power is giving way to international power. There is now a League of Nations and it is more than 10 years old. There is a popular impression to the effect that the League of Nations is concerned solely, or principally, with matters of war. This is far from true. Its dominant function is the reconcilement of the various economic interests that come into conflict across national boundaries. Its most active committees concern problems of international commerce - the transport of goods, navigation, tariffs, cartels, patents, double taxation, hours of labor, child labor, working conditions, wages, traffic in opium, and epidemics.

Men of vision have dreamed for centuries of a league of nations, but one has come into existence only in our day. Not until now have the economic relations among men made its existence imperative. It is the railroad, the telegraph, the radio, the airship, the newspaper, and large scale industry that have compelled an abandonment of complete national sovereignty in favor of an international organization. And it may be observed parenthetically that if the movement toward increased economic interdependence continues, the United States of America will someday be an active member of the League. But there is not only a League of Nations, today, there is also a World Court and within the past few weeks a World Bank. These, also, are concomitants of the new economic system that has come into being.

The extension of political power to control economic relationships has been stubbornly resisted at every stage. This has been especially true in the United States. Our nation was born in the hey day of the philosophy of individualism. The revolutionary keynote was LIBERTY. The songs which we have sung and the orations which we have repeated have extolled freedom. The long decades of pioneer life kept the notion of liberty, freedom, and independence fanned into a burning flame. Our greatest problem as a nation has been the adjustment of the spirit of individualism to the control which increased economic interdependence has made necessary. And that, it may be predicted, will be your greatest problem as citizens for the end is not yet in sight.

The railway industry, for example, was conceived in the spirit of freedom to do what one would with his own. Competition was relied upon to get adequate railway service at fair rates. But by the 1870's it was apparent to thoughtful men that this policy was wholly inadequate. Discrimination among shippers was practiced so extensively that government regulation became necessary in order to conserve the general social welfare. But it was not until 1887 that the Interstate Commerce Commission was established, and then the Supreme Court so interpreted the statutes that the Commission was practically ineffective. A long battle was then waged to get improved legislation through congress. The Senate was recalcitrant. It is said that many senators owed their seats to the political influence of railway men. Finally, however, the roads were subjected to effective social control and today they are practically owned by the United States government. Railway officials have no more freedom in making contracts with their customers than have the clerks in a post-office.

Pure food legislation is another one of many possible illustrations of the point at issue. The preparation of food outside the home and the extensive use of what was thought to be medicine, made it desirable that steps be taken to make these articles wholesome. Interstate shipment made this a national problem. It was proposed that a Federal law be exacted to require manufacturers of drugs to print the ingredients of packages upon the labels, and to prohibit the sale of diseased meat, decomposed food, or dangerously adulterated food. But the legislation was opposed in the name of liberty. Senator Aldrich of Rhode Island inquired if it was desirable to "put the liberty of all the people of the United States in jeopardy?" Senator Platt of Connecticut objected to the proposed bill because some "poor, hardworking woman" might be injured by the law. Courageous men and women fought the battle for years. Finally, President Roosevelt was drawn into the fight and the bill was passed in 1907.

One can safely say without investigation that almost every candidate for conspicuous office in the states or nation during the past 70 years has decried the encroachment of the government in business and the consequent increase of taxes, but no sooner has such a candidate found himself in office than he has done his part to increase the scope of the government's powers and to augment the taxes. Mr. Harding, for example, pleaded for less government in business during his campaign for the presidency but soon after his inauguration signed bills greatly increasing the control of the government over the meat packing and the grain marketing industries. As a candidate, Mr. Hoover expressed alarm over the suggestion of government control of electrical power, which he called socialism, but no sooner was he in office than he gave warm support to the bill

that provided for the Federal Farm Board and appropriated to it $500,000,000 of government funds to control the marketing of farm produce in the hope, which may prove to be a vain one, that the farmers may thereby be relieved.

In the struggle which has gone on in respect to the extension of government control as our economic society has grown more complex, the U.S. Supreme Court has played a very important part. Under the provisions of the 14th amendment to the National Constitution, the court has assumed power to declare unconstitutional state legislation that affects (takes) "life, liberty, or property" in a manner that does not seem to the court to be reasonable, and under the 5th amendment it exercises similar power over the laws of Congress. Recent decisions of the court make it impossible to have minimum wage legislation in the United States, to control the fees that employment offices may charge, to prohibit the use of injunctions in labor disputes, to prevent discrimination by employers against members of trade unions, to value the property of public utilities on the basis of original prudent investment, or to prescribe public utilities rates that will earn no more than 6.26 per cent. Such legislation is well established in England and in other modern industrial nations. But the Supreme court will not permit us to have such laws.

It is well to note that the court in such cases performs a legislative rather than a judicial function. The judges vote as they would vote if they were members of a state legislature or of Congress. They justify their position in terms of liberty and freedom - in terms of the philosophy of individualism - despite the fact that our economic life is no longer that of frontier farms and small scale industry. To make general application of a remark of Justice Holmes,

who invariably dissents in such cases, these decisions are based upon "an economic theory which the country does not accept." And it does not accept it because it is not applicable in the complex economic relations of our present society.

The recent opposition in the U.S. Senate to the appointment of Mr. Hughes as Chief Justice is perhaps very significant, as it may indicate a growing resentment against the court for blocking legislation which is deemed desirable in view of the new economic conditions. It seems safe to prophesy that if our economic life continues to become more complex, the court will jeopardize its position if it continues to stand in the way of legislation which the people through their chosen representatives in the state legislatures and in Congress regard as essential.

It is interesting to note that until recently we attempted a system of negative control over one significant feature of our changing economic life. Prohibitions were, in effect, laid upon the size of business enterprise, especially when this resulted from combinations. Roosevelt's administration is conspicuous for its "trust busting" activities. Wilson preached the gospel of the "new freedom" before his election. He wished a return to the competitive conditions of the past. His last few months as Governor of New Jersey were largely concerned with the passage of seven laws designed to curb the formation of large aggregations of capital in that state. But such efforts were not in line with the trend of the times. The legislature of New Jersey began repealing the Wilson anti-trust laws almost as soon as he moved to Washington. In 1920, the U. S. Supreme Court refused to order the dissolution of the U.S. Steel Corporation on the grounds that it was not

engaging in unfair practices and that dissolution would be detrimental to our economic interests.

A few weeks ago the Interstate Commerce Commission gave its consent to a merger of the Great Northern and the Northern Pacific railroads, which is expected to result in a saving of $10,000,000 per year in operating expenses. But during Roosevelt's administration, the U.S. Supreme Court ordered the dissolution of a holding company which had been organized to combine these two roads. Within the past ten years the number of automobile tire manufacturing companies has been reduced from 300 to 30, yet no one complains of it. The American Telephone and Telegraph boasts of assets of over $4,000,000,000, but the only regret expressed by public men is that the company ought to own also the lines of the Postal Telegraph Company that are in this country.

The economic and political philosophy of today is clearly different from that of a few decades ago. But old ideas have not been entirely discarded. We are told, for example, that if it were not for the fear of our anti-trust laws additional consolidations would be made in the field of iron and steel similar to the consolidations in Europe. But even so, additional combinations are being formed. Size is not nearly so fearful to us as it formerly was. Our ability to prevent "unfair" practices through the operations of the Federal Trade Commission, and in the case of the railroads and other similar industries, the effective control over rates and service, permits us to take advantage of the economies of large scale industry.

One of the outstanding questions of government control

today relates to electric power. In 1899, 1.8 per cent of the power used in manufacturing came from electricity, but in 1927, this percentage was 49. In 1914 we produced $359,000,000 worth of electric machinery, apparatus and supplies, and in 1927, five times this amount. We are told that recently processes have been perfected making it possible to transmit electric current 2,000 miles with a loss of only 1 per cent of power. At present the limit is 200 miles for a loss of 1 per cent. The effect of this discovery may be most revolutionary. But even without it we are on the threshold of an age of electricity which cannot but mean a tremendous increase in economic interdependence.

On one side of the battle line today we have the owners and managers in this new industry who insist upon freedom, and on the other side we have men who insist upon a high degree of government control, if not government ownership and operation. One cannot tell just what form public control will take, but it certainly does not need argument to support the proposition that electric current will be subject to a high degree of social control. The dependence of countless persons upon its power and light makes this inevitable.

Opportunity for employment is another problem that is assuming vast proportions today. One of the blessings of agricultural life is that there is no unemployment there - even on rainy days. But in an industrial society, men and women may be suffering for lack of economic goods, and despite their earnest desire to work, be unable to find anything to do. At this very hour in all of our leading cities, men and women are making pitiful trips to factories looking for employment which they cannot find. Distress, crime, bolshevism are the natural fruits of such a condition, but so strong

is the 18th century philosophy of individualism among us that we haven't done anything about it. We might have a system of national and state employment offices, or a system of unemployment insurance. These are found in the other leading industrial nations. We might at least have an adequate system of records. Some day, of course, something will be done. Modern economic relations make this imperative.

In this connection, attention should be called to the action of President Hoover last fall in summoning industrial leaders to Washington for a conference in regard to unemployment. Growing out of this, the suggestion has been made that a permanent National Industrial Council, an Economic General Staff, should be set up for the nation. Its duties would be to give guidance to the many different lines of industry, to the end that they be kept well coordinated with each other. This suggestion from powerful groups marks a long step away from the philosophy of individual freedom in economic affairs.

It must be noted that social control cannot accomplish all things. The government of Brazil has failed in its control over the price of coffee and it is predicted in many quarters that the Federal Farm Board will not be able to control the price of farm products in this country. Social control is not a panacea. The principle must be applied with discretion.

The general movement toward an increased amount of government control has one very regrettable aspect. It tends to curb the initiative of individuals. But it must be remembered, first, that large scale industry itself checks individual initiative. Employees in the U.S. Steel Corporation are subjected to a considerable amount of red tape, as much perhaps as would be the case if

that concern were owned and operated by the government. Second, any mutual dependence in economic affairs makes it necessary that restrictions be imposed upon individual conduct.

The above argument it must be noted applies to economic conduct and only to that portion of one's economic conduct that affect the well-being of other persons. Government control over such matters is in an altogether different catagory from government control over individual conduct that does not affect the rights or interests of others. Present day attempts to supervise the books that shall be read, the speeches that shall be made, the plays that shall be observed, and the general manners and morals of the populace rest upon an altogether different basis from supervision over railway rates, meat packing, accident compensation, and child labor. Whether social control over personal conduct is desirable is not at issue in this paper. Suffice it to say that such control is not imperative or inevitable as is control over economic affairs as economic relations become more interdependent.

The form that social control of economic affairs will take is problematical. Some persons expect to see a great extension of government ownership and operation. Others believe that private ownership will continue subject to government regulations, exercised for the most part, through boards such as the Interstate Commerce Commission. Again, it is argued that the political state is not adequate to the task and will break down as additional burdens are assumed. Hence, it is contended, control will be exercised through self-governing organizations in the various industries.

No one can tell what form of control will be followed in

the future. We can only be certain that if the degree of economic interdependence continues to increase, there will be further extensions of social control. But in this, as in all phases of social life, change is inevitable. There can be no final solution of any social question. Life is change, movement, process. The Egyptians did not have a scheme of life that endured - nor the Greeks, nor the Romans, nor the English of 1750, nor the Americans of 1850, nor have the Americans of 1930. Human beings are forever grouping toward a new social synthesis.

One of the principal functions of a University is, through its graduates, to furnish leadership in social process - leadership that will help to secure the realization of the finest ideals that are applicable in a given day and generation. I congratulate you on being called to this high purpose.

###