

★ *The Institute is privileged to publish this Article, which has been written specially for "Review" by a famous American, Philip D. Reed.*

- Born November 16th, 1899, in Milwaukee, Wisconsin, Philip Reed is acclaimed as one of America's leading business statesmen. As President of the International Chamber of Commerce and Vice-Chairman of the Board of Trustees of the Committee for Economic Development; and experienced in the solution of grave problems both in war and peace, Mr. Reed applies in this article that capacity for great and generous thinking which typifies a section of far-sighted American business leaders. University trained in law and electrical engineering Philip Reed, rose via its law department, to Chairman of the Board of General Electric at the age of 41. During the War he served with the War Production Board and also headed a U.S. Mission for Economic Affairs to London, and in 1945 attended the San Francisco Conference as consultant to the United States delegation. Of particular significance is his recent appointment to the Chairmanship of the American section of the Anglo-American Council of Productivity.



COPYRIGHT BY KARSH

BUSINESSMEN HAVE A JOB TO DO

By PHILIP D. REED

When one is fighting a war, be it cold or hot—and particularly a defensive war—the moves and countermoves of the adversary have a very large bearing on one's own plans both strategic and tactical. This is very much our position in the United States today.

We have Paul Hoffman's recent statement that ECA aid should end on its scheduled date of June 30th, 1952. I believe it will in fact end on that date, although it is unlikely that Great Britain, Western Europe and their colonies will by then have achieved a balance of payments with dollar areas at anything like their present level of dollar imports. Whether

and in what form further governmental credits might be made available to these countries will depend to a very large degree on what progress Britain and Western Europe have then made toward freeing up intra-European trade, achieving convertibility of currencies and improving the quantity and cost of their production. It may depend equally on whether American and Canadian private capital have been encouraged by then to flow in much larger amounts into foreign investments; whether tourism, an important dollar earner, has been developed as it should be; and last, but not least, whether foreign commodities and goods

are being merchandised aggressively enough to reach the United States market in sharply increasing amounts.

Trend from Government Control.

Last October I visited six countries—England, France, Italy, Greece, Turkey and Egypt—representing the International Chamber of Commerce, the United States Advisory Commission on Information, and my own company, General Electric. In those capacities I was fortunate in being able to see a good many top people in business, banking and government circles. I came away from every country but England (where the government is too firmly committed to change) with the very definite impression that the trend today is away from government ownership or control of industry and in the direction of encouraging private enterprise. This was stated to me flatly by high officials in several governments and broadly inferred by others.

Responsible officials are disillusioned by their experience with government ownership and appalled by the enormity of the task of extending it. I do not mean to say that much has yet been done to release the shackles on private enterprise. That is not the case. But instead of eager, confident reaching for more control and direction of the economy, these governments are talking about encouraging private enterprise and asking what needs to be done to create a climate favorable to the flow of private investments into their countries. I was impressed by the fact that the psychological moment has arrived for competent business leadership in these countries to assist their governments, fairly and objectively, in working out programs looking to the gradual relaxation of restrictions on private business and the creation of a climate favorable to expanding operations.

For what it's worth, these observations are, I think, fortified and confirmed by

the recent election results in your part of the world. Readers of this article can judge the significance of these trends much better than I.

We in the United States—although we have not gone as far toward Socialism as many other countries—are, unhappily, still moving in that direction. Our government wants more, not less, central authority to direct and control the operations of business; it wants more, not less authority to spend and it wants more, not less, taxes to finance its operations. It would indeed be tragic if we failed to benefit in time from the experience of other countries, if we failed to stem the tide of ever-growing centralized authority simply and solely because our people do not understand the significance of what is happening to them. For this, it seems to me, is the basic flaw in the armour of America.

Ignorance of Economic Facts.

The reason the mass of our adult population is ignorant of the fundamental economic facts of American life is that nowhere in their life's experience have they been made to understand them. The truths that every businessman must know if he is to remain a businessman are truths he has, in almost every instance, learned the hard way in the course of his business experience. And yet we businessmen are surprised and resentful that our workers and our neighbors in other walks of life do not instantly reject the attractive but unsound proposals made to them by certain politicians and Labor leaders.

The real reason is that too many businessmen believe they have discharged their responsibility to society by producing a useful product, profitably. Too many businessmen regard as extra-curricular or pro bono publico or just plain wasted time and money anything they may be doing to support studies and educational programs aimed at creating a

better understanding of the fundamentals of the American economic system. *Too many businessmen have been wearing mental blinders which excludes from their line of vision and effort everything but the day to day task of operating their business under conditions as they find them. They aren't happy about the conditions and realize they are getting worse, but that they have either the capacity or the responsibility to do something to correct the situation rarely occurs to them.* They are like the farmer who plows a fine, straight furrow and grows a rich and plentiful crop but fails to note or raise a hand against the cloud of locust on the horizon which, unless destroyed, will strip his fields.

Businessmen must tackle the job.

The fact is, of course, that of all the people in any American community the businessmen are the logical, indeed the only, ones who have the knowledge, the incentive and the resources to tackle the job of adult economic education in their own back yards. Here in my judgment lies the great hope of the survival of enterprise based on individual initiative. Either we shall succeed in generating a much better understanding of, and a desire to retain, the basic elements of the system which made America great or we shall continue to move in the direction of more and ever more state control and dictation of all that we do.

It is not simply the oft-proven and inevitable inefficiency of government operation or control that destroys the future of any country which goes down that road. Costly as that inefficiency always is to the standard of living of the country, the real tragedy is to be found in the millions of individual enterprises that are never born. Prohibitive taxation or the assumption of direct control of industry by state bureaucracy destroys the incentives that in the past induced the creation

of millions of individual enterprises. The productive undertakings of a country thus tend to be narrowed down to those which the government itself conducts or sponsors. The real potential wealth of the country, that is to say the individual resourcefulness and enterprise of all its citizens, is crushed and sterilized.

What we must everlastingly point out is that the function of government is to create and to preserve a climate which invites and stimulates action on the part of others. Its function is like that of rain on a desert area. The moisture creates a condition in which millions of individual organisms in the desert soil are stimulated to life and action, and very soon the barren expanse is rich with output.

It must be a part of our educational program to make perfectly clear that business wants and favors adequate security against involuntary unemployment, old age, disability, etc. But we must point out that for the government to promise such security is meaningless unless the economy of the country is sufficiently vital and productive to provide the products that will make the promise good.

Social Progress and Production

Thus, it is not generally understood that social and economic progress *must be twins*. Everybody wants adequate social security, but it can become and remain a reality only so long as the economic system of the country is vigorous and strong. *In a steadily rising national production of goods and services lies the only hope of social progress. I reiterate, social and economic progress are twins—indeed they are Siamese twins—and one cannot live longer or grow faster than the other.*

Many of us know these things, but too many millions do not. Nor do they understand how increased production is achieved. Everyone knows that a worker in

any up-to-date manufacturing plant today produces very much more in a week's time than his father did say twenty-five years ago. But how was this accomplished? Does he work longer hours? No. The fact is that he works much fewer hours in a week than his father did twenty-five years ago. Does he work harder? No, it is almost universally a fact that the industrial worker today is required to expend less physical energy per hour of work than he did a generation ago. Well, is the industrial worker today more skilled than his father was? Again the answer must be no. Indeed, in America, and I expect elsewhere, there are much fewer really skilled craftsmen per thousand industrial workers than there were twenty-five years ago.

Well then, what did account for the very large increase in the worker's weekly output? The worker's arm has been "lengthened" by his employer providing him with power tools and specially designed production equipment which, with less effort and less skill and with shorter hours, enable the worker to produce many times what he could produce with his hands or obsolete tools. This means that money, the savings of investors or the ploughed back portion of corporate earnings, must be spent to buy the tools and equipment which the worker operates. The other part of the answer is that by expert design of the product and by skillful layout of the plant the worker is provided with the maximum opportunity to spend his working hours actually producing. Waste and inefficiency in using his working time are minimized. In short by placing expensive tools at his disposal and by using the most efficient factory and production methods, the worker can produce more product per hour and therefore justify a higher wage for himself than would otherwise be possible.

If this point were clearly and widely understood, labor, even more than management would be championing the cause of adequate incentives to investment in new and improved tools and equipment.

Incentives

The whole subject of incentives needs to be reduced to simple, understandable terms. It is incentives plus freedom of action that distinguish a free from a slave state, a vital growing economy from a static one. There *must* be incentives, adequate incentives for those who perform every function essential to the operation of the economic system. Thus the worker, the management, the investor and the customer, all must be provided with an *inducement*, a lively self-interest in doing his part more fully, more effectively and more efficiently than ever before. The fundamental point is that people exert that extra effort or risk their savings on a promising but unproved venture in the expectation of reward, and our free democratic system *must* provide adequate rewards to all participating elements if the system is to survive. *And no economic system known to history compares in vitality, efficiency or productive potential with a system of competitive enterprise based on individual initiative.*

These things are well known to businessmen, but we have been keeping them very much to ourselves. There is now in this country, I am glad to say, a lively and growing interest in the development of the best possible methods and techniques of imparting this information to large numbers of people in plants and plant communities. *More and more companies are charging a senior officer with responsibility for this educational work, and as a result things are beginning to happen.* If everyone will shoulder his share of the load and will exchange with others the results of his efforts, we cannot fail.

But we have much ground to make up. Time is of the essence. And *now* is the time to get at it.

Responsibility of Educators

Let me say again, too many businessmen the world over have considered their duty to society discharged by the profitable operation of a useful business enterprise. They have failed to appreciate that they themselves, being closest to and therefore knowing most about the economic system under which they operate, have a deep responsibility to their fellow citizens to explain the working of their system. Ignorance and apathy on economic questions are the deadliest diseases a democracy can suffer. Unless the electorates understand what elements are fundamental to the operation of their economy, they cannot know and therefore cannot resist changes which would destroy or irreparably damage it.

Unless and until, therefore, businessmen of all countries accept their responsibility as educators, we shall be living on unfirm and shifting sands. The development of honest, objective economic studies, not by economists but by business leaders themselves, is the first step. The second is the dissemination of this material in simple and understandable form to educators, to government officials, to employees, their families and their neighbors, and to thought leaders throughout the country. This is not primarily a job for business associations, although they can help. It is largely an individual company job that will be done only when business men recognize and accept their responsibility really to do something about lifting the economic literacy of the communities in which they live.

President James B. Conant of Harvard University, while speaking of the prime importance of *progress* in education, once said: "Behold the turtle, he only makes progress when his neck is out." Mr. Conant then observed that, as applied to

college presidents, he had found that when they didn't make progress they were very shortly in the soup!

How very true that is not only in education but in all walks of life. One must constantly move forward only to keep his place, and one must assume risks—yes, stick his neck out—intellectually, financially, or perhaps both if he is to lead rather than follow in his field. We know from experience that many of the new, unconventional, even radical ideas of today will be commonplace and conservative tomorrow. We know that the newest and finest products flowing from our factories today will be obsolete tomorrow. And the evidence is overwhelming that only as people, institutions and nations are thinking and acting bravely and imaginatively in terms of the future do they make progress in the full and satisfying sense of that word.

The United States.

Let us apply these thoughts to the United States of America. Although perhaps not always in balance, the accomplishment of America toward providing for the great bulk of its people, the opportunity to live good and satisfying lives is without parallel in history. But in achieving this extraordinary result America concentrated on the development of its homeland. We thought and acted bravely and imaginatively on domestic affairs, but we did so almost to the exclusion of the world around us.

This was both natural and human. The magnitude of our task and opportunities here at home was sufficiently challenging to command all the brains, energy and financial backing we could muster. As a former colony of Great Britain, which for the century preceeding World War I maintained with dignity and distinction the Pax Britannica, we suffered from an inferiority complex in the field of international affairs. Indeed, as late as the second world war many good Americans

believed that our diplomats were no match for the smooth and experienced negotiators from overseas. We wanted no entangling alliances with the troubled continent of Europe from which so many of our ancestors came in search of a better life.

We refused to join the League of Nations, thereby rendering it virtually impotent. We failed to recognise the significance of our becoming a creditor nation after the first world war. Instead we redoubled our efforts to sell more of our rapidly expanding production abroad and made ever more difficult the payment for those exports by raising higher and higher tariff barriers against the products of other countries.

To ease this economic paradox and make it possible for our foreign customers to pay, we loaned billions of dollars abroad in the 1920's and saw most of those loans go into default; we bought billions of foreign gold in the 1930's, which we promptly buried in Kentucky and by no stretch of the imagination can be said to have improved our standard of living; and in the 1940's, for different and much more substantial reasons, we made huge Lend-Lease, ECA and other foreign grants to finance a large fraction of our exports with no hope or expectation of repayment.

Indeed, I think it fair to say that the absence of American leadership and of a sound foreign economic policy during the 1920's and 30's contributed more than any other single factor to World War II. This unhappy conclusion seems much clearer to us today as we face with certainty the fact that only through strong, wise American leadership can we hope to restore peaceful conditions and a reasonable degree of political and economic stability in the principal areas of the world.

That we *have* the responsibility for world leadership is now crystal clear. America emerged from the war far and away the greatest economic power on

earth. It is estimated that 50% of the world's production in 1948 was American production.

In my view we have thus far come through the postwar phase with considerably less economic turbulence than I had anticipated and, *although I am no prophet, I am quite willing to say that a depression in the United States within the foreseeable future is not one of my worries.* We are by no means complacent on this subject in America; but with the far better understanding we now have of the interplay of economic forces and with the new and useful tools we now possess for moderating economic fluctuations, we approach the problem with, shall I say, respectful confidence.

Economic supremacy carries with it military supremacy because war today is won by the side whose industry can provide the greatest and most sustained striking power. And finally, political power among nations being derived, unhappily perhaps but none the less truly, from the power of production for peace and for war, America finds herself possessed of unparalleled strength and responsibility in a world which, if it is not technically at war, is surely not at peace.

How then are we discharging that responsibility? Let's examine for a moment the broad outlines of our policy and program vis-a-vis Russia. Although we are not at war with Russia and few close observers believe that there is more than an accidental chance of war with her in the foreseeable future, we are nevertheless locked in a desperate and deadly struggle for men's minds. The ideological conflict involves more, much more, than has been at stake in any war in America's history. *Our* way of life, our political and economic freedoms, our profound belief in the dignity and God-given rights of the individual are all at stake. To lose this struggle would be to plunge the world back into the Dark Ages for generations, perhaps

for centuries to come. It has happened before and it can happen again. Accordingly, we have no alternative but to resist with every means at our command the spread of Soviet concepts and control not only in Europe but in other areas of the world both West and South.

A Three-Pronged Program.

Our government is undertaking to contain Soviet Russia and Communism with a three-pronged program involving the use of three quite different instrumentalities. Each has its function to perform in this great struggle for the minds of men and each has, or should have, an equally high place in the strategic plan.

The first prong of the program is rearmament. We are rapidly rebuilding our military strength. We are also helping free nations to do likewise.

The second prong of our three-pronged program is economic. Of no less importance than rearmament, the objective of the second prong is to assist the free countries of Europe to increase their production for home needs and for export, to balance their budgets, to restore sound and convertible currencies and, at the earliest possible date, to become self-supporting, all to the end that living conditions in these countries shall again become tolerable for their people.

The third and final prong is the information or, if you wish to call it that, the propaganda prong. Here we meet the enemy head on. Russia places by all odds her heaviest reliance on propaganda. Spending enormous sums, using her best and most imaginative brains, and employing every trick and device known to man and a good many known only to the twisted minds of Moscow, the Russian propaganda machine has blanketed Europe—not to mention her activities elsewhere—with a barrage of downright untruths, half truths and baseless rumors that can be appreciated only by one who has seen and heard it.

The answer to this campaign is, of course, the truth widely told and oft-repeated. My two and a half years in London during the war taught me that three-quarters of the irritating misunderstandings which kept cropping up between Britain and ourselves were without basis in fact and resulted largely from careless, irresponsible talk. Had these mistaken stories been quickly and pointedly corrected, the going would have been much easier. But imagine if you can how much worse the situation is throughout Europe today with Russia's all-out effort to arouse hatred, suspicion and ill feeling *superimposed* on a situation already sensitive because of meager and incomplete communications.

The object of our State Department's foreign information service is, by radio broadcasts, news bulletins, publications, motion pictures, libraries and exchange of students, to lift the dangerously low level of foreign understanding of the United States, her deep belief in human dignity and freedom, her way of life and her actions and objectives abroad. The program is under way, but it is homeopathic compared to that of the Russians. The British have a far larger and more effective foreign information service than we.

I am not suggesting our government can or should do the entire job. Quite the contrary. Private organizations and agencies can and should perform signal service in providing a foundation for the government's efforts. Businesses and banks through their foreign advertising, their offices abroad and their foreign travellers, can tell the story most helpfully. Letter writing on a broad country-wide scale and the distribution of American books and periodicals can likewise be exceedingly effective.

Exchange of students, faculty, news and ideas between educational institutions is another important phase. The credit-

ability of information which comes from private sources is far greater than that which emanates from government. The more we who are outside the government can do, the less our government will have to do. Nevertheless, the job is far too great to be accomplished by private groups alone. The State Department's program must fill the gaps and lift the over-all volume to the required high level.

If America is to fulfill her destiny in world affairs she must be understood and trusted by her world neighbors. She must consider well her public relations. This third prong of America's foreign policy has been truly called the "Public Relations of Survival."

But whether our three-pronged program to beat Communism is in balance or not, the fact is that America *has* a program. We are asserting at long last the leadership the world must have from its greatest power and that we must give if we are to secure our own freedom and our way of life here at home. Our task now is to make that leadership sound, firm and effective. I need not tell you that this cannot be done by a few experts in Washington. Enlightened, understanding public opinion is indispensable to a wise and consistent policy, foreign or domestic.

Unity among the Free Nations.

I would like here to emphasize the tremendous importance of preserving unity among the free nations. I am sure all of us have observed that too often the unity we preserve is a lip-service unity. Under this lip-service unity, honest disagreements are not faced up to. In my opinion we do a disservice to the ideal of unity if we strive to find words of apparent agreement, which are in fact no more than a cover for a mosaic of differing *national* points of view, rather than searching seriously for *international* points of view which nations can incorporate into their own policies and way of life.

Many people are disappointed at the dissension and disagreement reported in our daily papers concerning the United Nations. But let's stop for a moment and look at the length of our experience in trying to establish international goals of action and belief.

The first such attempt on a world-wide basis was certainly the League of Nations set up in 1919. The International Chamber of Commerce was set up the same year. The League failed and the United Nations came into its place. The International Chamber of Commerce, while surviving the war, is by the very nature of its membership on trial. That is businessmen throughout the world today are on trial. Businessmen in America generally represent a system of competitive enterprise. They believe that compulsory competition is a vital factor in the high energy, high incentive system we have developed and are fighting to retain. Many businessmen in other parts of the world have the same view, but it is also true that in other countries businessmen honestly believe in the cartel system of enterprise.

It is not surprising that men of business in various parts of the world should have tried different systems of operation. After all, business operations on a mass world-wide scale are less than a century old. But they are older than the efforts at political agreement on a world-wide scale. Now if we measure the time elapsed in these efforts against the known records of civilization, we have one century against 6,000 years; and while human beings have always been experimental animals, they have not experimented in the areas that we deal with today except for a matter of minutes against recorded time.

Therefore, it seems to me that we do ourselves injustice when we allow ourselves to be discouraged because we have not made greater progress than we have.

Our trouble lies perhaps in measuring the span of our own individual lifetimes against problems that will not be solved for generations to come. If we view ourselves as standing in relationship to the future as the pyramid builders of Egypt stood in relation to the future, then perhaps we can have the courage to believe that instead of building a pyramid we are making our contribution to a way of life that we hold dear and that will be here long after we have continued our journey elsewhere.

Mass Production.

Let me list two of the concepts that did not exist a century ago. From the standpoint of the businessman certainly two of the large concepts which he accepts and takes for granted are those of the corporation and mass production. These two concepts have influenced the lives and the livelihood of millions of people. They are part of the thinking of that eminent economist, Peter Drucker, who pointed out in a recent article in HARPER'S Magazine that "mass production has been as imperfectly understood by its partisans as by its critics—all of whom have seen it as a new 'technology' . . . "But," says Mr. Drucker, "when we analyze this new so-called technology, we find that it is not a 'technology' at all; it is not merely an arrangement of physical forces. What it is really is a new concept of organizing men for joint work. It is a principle of social order rather than one of mechanics."

And then he points out: "Change in the 'system', however radical, will not solve anything. In fact, the basic problems of mass-production organization and industrial enterprise are *exactly alike* whatever the 'system,' whether capitalist, socialist, communist, or fascist. Indeed, while changes in the 'system' will not affect the basic, the real problems of an industrial society which lie in the new institutions, *the solutions we shall find—*

or fail to find—for the problems of mass-production order and industrial enterprise, will decide under which 'system' we shall live and, especially, whether or not that system shall be free.

"The great, the final, issue in the conflict of ideologies which rends our world is over *the principles and beliefs* on which the new institutions of the industrial order are to be based."

After reading Mr. Drucker's article, it occurred to me that he posed a challenge to businessmen throughout the world; namely, to find ways of making that contribution which is so peculiarly theirs to the creating and social institutions and economic policies in keeping with the new technology.

Business and the Public Interest.

I wish to venture it as my opinion that it is easier to make a social thinker out of a businessman than it is to make a businessman out of anybody else alive. Further it seems to me that one reason businessmen have created associations, local, national and international, is to have a means through which they can make their contribution to the preservation and extension of a free society. *There is no conflict between the interests of business and of the whole country. Indeed, it cannot be too strongly affirmed that what is good for all of the people of a country is for that very reason good for business.*

It is perhaps not unnatural that I should be particularly concerned with our economic policy in the United States. I deeply believe that economic literacy in business, in government, in labor and in agriculture is essential to the preservation of our free society. Far too many millions of us do not understand the basic economics of private competitive capitalism. We cannot therefore judge the wisdom or unwisdom of projects or legislation proposed for our communities or for the nation.

Businessmen have a job to do (continued)

It is the clear duty of every citizen to understand the reason for America's amazing economic growth and vitality, to know the basic differences between the free enterprise economy of America, the state ownership economy of Russia, and the so-called mixed economy of Great Britain which endeavors to employ both systems. For if we do not know what we are doing and when our freedoms are in jeopardy we shall be playing into the hands of power-seeking people who do know what they are doing and precisely why.

Two organizations of businessmen with which I happen to be actively associated, the Committee For Economic Development and the International Chamber of Commerce, are outstanding examples of

conscientious and thoughtful search for the right answers irrespective of group or sectional interests. All these things are to the good, but the tempo must be stepped up and the movement broadened and deepened. Problems of national and international importance should be under searching and constant study by private citizens and institutions in all the free countries.

Only thus will we refresh our understanding of the economic, political, moral, and spiritual foundations upon which our freedoms, our concepts of the dignity of the individual and the rights of minorities, were so firmly grounded. Only thus will we find the key to the good life for our children and our children's children.

