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**GOVERNMENT AND ECONOMIC LIFE**  
**Development and Current Issues of**  
**American Public Policy**

GOVERNMENT  
AND  
ECONOMIC LIFE

Development and Current Issues of  
American Public Policy

VOLUME I

BY  
LEVERETT S. LYON  
MYRON W. WATKINS  
VICTOR ABRAMSON



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## DIRECTOR'S PREFACE

Public opinion appears to be sharply divided today as to the truth of the ancient dictum that that government is best which governs least. This divergence of thought stems in part from the different meanings that different people attach to the verb "govern." To some it connotes the negative functions of repressive control, to others the positive qualities of vigorous and compulsory action or service, and to others the also positive but more flexible and voluntary attributes of social leadership. The actual government of any modern state embraces complex combinations of all these kinds of government, but we are too little conscious of these differences and their proportioning even in our own country.

Mr. Lyon and his collaborators, instead of discussing the oversimplified issue of "government control of business" or "interference with business," have drawn on a larger canvas the more fundamental issues of government's relations to economic life. The second volume of the study will go beyond the area usually referred to as government in relation to business, and deal with those segments of economic life and those occasions in which governmental action has taken special forms or gone over into direct governmental production. This first volume, however, dealing with what the authors describe as "government and private enterprise generally" makes a definite and clear-cut unit. It analyzes governmental activities which have been applied to a large part of American industrial life.

Whether the present European war will be long or short, whether we shall be engulfed in it or its fury be stayed before it reaches our shores, the issues of government's relation to economic life need to be studied in terms of their fundamentals before our future course can be made intelligent. To such understanding we trust these volumes will make a significant contribution.

The study upon which this report is based was made possible by funds granted by the Maurice and Laura Falk Foundation of Pittsburgh. However, the Falk Foundation is not the author, publisher,

or proprietor of this publication and is not to be understood as approving or disapproving by virtue of its grant any of the statements and views expressed herein.

The committee of the Institute which co-operated with the authors in the preparation of this volume consisted of Charles O. Hardy, Arthur C. Millspaugh, and myself *ex officio*.

EDWIN G. NOURSE

*Director*

Institute of Economics  
September 1939



## PREFATORY NOTE AND ACKNOWLEDGMENTS

Studies of government in relation to business, studies of governmental activities as they affect particular parts of economic life, and studies of particular governmental agencies and particular public economic policies are numerous. This book does not propose to duplicate such works; it has a wider compass than any of them. The two volumes of this study taken together are designed to analyze the relationship of government to economic life as a whole in terms of fundamental economic and social functions and fundamental governmental activities. They are designed, by analyzing the interrelationships between these various activities, to throw a clearer light on the essential nature of our public policy. The first volume is concerned with the basic concepts involved and with that broad area of economic life organized by private enterprise in which governmental action operates chiefly through general laws applicable alike to the economic actions of all individuals.

In this volume governmental relationships to private enterprise are conceived as having a dual character—implementation and regulation. Implementation grows from confidence in private initiative and decision as a social instrumentality; regulation from the view that, uncontrolled, private initiative will work social harm. Both in implementing and in regulating private enterprise, governmental action has developed an elaborate institutional and legal structure and through that structure it applies an enormous administrative effort.

In any consideration of problems of public policy the question of what is "sound" inevitably arises. Those who are looking for definitive answers or solutions of that sort will not find them in this book. Solutions and definite recommendations of public policy are necessarily based as much on subjective evaluation as on scientific observation. A judgment of what is sound is as much a matter of the objectives desired as of the probable consequences of a given line of action or inaction. It is, of course, desirable, when feasible, to indicate what consequences will presumably follow alternative lines of action. The basis of choice can thus be made more clear. The wide

range of problems dealt with in this book, however, makes such an analysis impracticable for all of the spheres discussed; nor can such an analysis be undertaken for limited areas without giving the study a biased and unbalanced emphasis. Rather the effort has been to interpret the development of each major phase of public policy in terms of the significant economic and social forces which have conditioned it, and to present current trends and frontier issues. The final chapter presents an analysis of present tendencies in broader terms. In that chapter there is pointed out the change in emphasis in the purposes for which government is being used, the new governmental methods which are employed, and, more significant, the changes in social criteria which these shifts imply.

Taxation as a means of financing governmental functions is not made a part of this study. It is discussed only with reference to its use as an enforcement device for one form or another of governmental control.

An important acknowledgment concerning the chapters on labor is to be made to Professor Royal E. Montgomery of Cornell. As a member of the group working on the study for a number of months, he contributed an extensive memorandum manuscript, but he is in no way responsible for interpretations or for the present form of the material in these chapters. While the plan of organization of Chapter VII was suggested by Mr. Lyon, its substance and in large part its presentation are the contribution of Charles O. Hardy of the Brookings Institution. Eleanor Poland shared responsibility throughout the preparation of the book and was particularly helpful in the work of putting the chapters dealing with labor into their present form.

In the preparation of this volume the authors have had aid from numerous other persons. Professor Paul T. Homan of Cornell, while working on material for the second volume, was helpful in discussing the plan of the first and in reading the manuscript for certain chapters. Professor Frank A. Fetter of Princeton, and Professor Ben W. Lewis of Oberlin, also working on chapters for the second volume, have been helpful in discussions. Thanks are due to Professor H. A. Millis of the University of Chicago for reading and contributing comments on the labor chapters. Acknowledgments are

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Throughout the investigation numerous governmental agencies and officials co-operated heartily in placing at our disposal information, published and unpublished, and gave valuable counsel. Thanks are due particularly to Dr. Lyman J. Briggs and Dr. Addams S. McAllister of the National Bureau of Standards, Mr. Justin W. Macklin and Mr. P. J. Federico of the United States Patent Office, to Dr. David Saposs and Miss Elizabeth Bliss of the National Labor Relations Board, to Dr. M. J. Field and Mr. Earle C. King of the Securities and Exchange Commission, and to several members of the staff of the Department of Labor and the Department of Commerce.

It goes without saying that none of these persons is to be held in any way accountable for statements or interpretations appearing in the book. With the exception of the labor chapters, for which Mr. Watkins is not responsible, the responsibility is shared by the authors.

LEVERETT S. LYON  
MYRON W. WATKINS  
VICTOR ABRAMSON

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