

# Full Production Without War

By Harold Loeb

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*To the Memory of My Mother  
whose faith did not flag*

# Preface

**I**N the land of the Mentawai, rice cannot be cultivated nor milk cows tended because there are so many feast days during which no work is performed. As a result, the people of this region do not live as well as do their neighbors.

In parts of Europe, America and other places where technology has reached an advanced stage, commodities which could be produced are not produced because of unemployment. When this occurs, the people of these lands are deprived of needed goods and services, and at the same time support would-be workers in idleness.

The irrationality of this latter conjunction impressed me as far back as I can remember. In 1920 and 1921 we used to discuss it—Stuart Chase, Howard Scott, myself and others who glimpsed the potentialities for general well being contained in modern scientific procedures. However, I did not think much about the matter until 1929.

In that year, many of my acquaintances had to curtail their standard of living, though no earthquake, plague or other physical disaster had arrested the production of wealth or lowered the productivity of society. Apparently the phase of contemporary living that related to the production and distribution of goods and services was subject to other than physical restrictions. With this thought in mind, I indulged in a fantasy which attempted to envisage what conditions would be like were men, machines, resources and knowledge fully utilized along the lines suggested by Howard Scott. Since I did not share the technocratic conviction that a dictatorship was required in order to sustain production, nor trouble at that time to delve either into statistical relationships or economic theories, the sketch paralleled in many ways the earlier forecast of Bellamy which I had not previously read.

Shortly afterwards, technocracy blazed across the horizon and exploded. I concluded:

1. Technocracy's primary tenet—that the manpower, resources and knowledge existing in the United States were sufficient to

provide an ample living for the total population—was probably sound.

2. The idea had captured the imagination of the public at a time of unsettled thinking because it based a promise of plenty and security on a foundation putatively scientific.

3. The exposure of the fact that technocracy rested on a mystic<sup>1</sup> pedestal although it had been put forward as the product of scientific research, had made it seem ridiculous and caused it to fade out quickly.

I decided to check the primary tenet by whatever data were available. Could the technical feasibility of abundant provisioning be demonstrated, its realization might be brought nearer. At any rate, such a check seemed the best approach or first step to the problem of unemployment and nonproduction.

The Civil Works Administration in 1934 gave me the facilities, a corps of experts, a staff, and access to government data, for conducting a survey of capacity, the NSPPC as we called it. The task was completed in 1935 and the *Chart of Plenty*<sup>2</sup> and the report of the *National Survey of Potential Product Capacity*<sup>3</sup> were duly published. Meanwhile the Brookings Institution had also conducted, completed and published a survey of productive capacity<sup>4</sup> using a different procedure and putting the question differently. Both studies indicated that the production and consumption of goods and services in the United States could be vastly increased by putting unemployed men and machines to work.

Notwithstanding this double substantiation of the “abundance” hypothesis, society continued to lack goods and to support the unemployed in idleness. And it continued to do so not because informed opinion doubted the possibility of producing more wealth. On the contrary, it turned out that many bankers, industrialists and business men—as well as economists, statisticians and Bellamites—had been aware all along that many

<sup>1</sup> “Mystic” is used in the sense of “directly apprehended” without going through the steps, logical and factual, associated with “scientific procedures.”

<sup>2</sup> Viking Press, New York, 1935.

<sup>3</sup> New York City Housing Authority, 1935.

<sup>4</sup> *America's Capacity to Produce*, Nourse and Associates.

more goods and services could be provided. But it continued to do so chiefly because no one knew how to put the unemployed to work creating needed goods without wrecking the elaborate structure of customs and institutions which regulated the economic life of society—or how to correct the condition even by wrecking the structure, for that matter.

An investigation of economic procedures seemed in order. With insight into what made the motor run, so to speak, it might be possible to discover why one or two of the cylinders usually missed. So blithely I started on the study which follows.

As I proceeded, certain of my prejudices and predilections were dissolved. At the start I had tended to overrate the function of engineers and other blueprint planners and to underrate the function of the complicated business procedures by which prices and wages are set and resources are allocated. Gradually, the importance of this latter or economic <sup>5</sup> function impressed itself upon me. The procedures had been evolved by trial and error during many ages and could not be discarded without disaster before substitute procedures had been worked out. But no substitute procedure for a peacetime economy had been worked out even on paper, though this fact was not always faced.<sup>6</sup> Essentially the problem was to discover and to understand the factors which prevented our system of “production for sale on the market” from operating effectively. Then measures might be devised to correct or neutralize the inhibiting factors thereby evading the probably impossible task of devising and instituting a new system.

As the study tediously pursued its end, events occurred in the larger world which affected the situation. Other societies faced by unemployment and nonproduction found a means to put their manpower to work. It is evident that a society which fully utilized its manpower and resources would be richer, as the tribes adjacent to the Mentawai, or stronger, than another society which utilized only a fraction of its manpower, other things being equal. And although in the world of yesterday

<sup>5</sup> The word “economic” will be used broadly to mean “the effective shaping of means to ends.” In its narrower application, “economic” will be used to mean “an optimum disposal or utilization of scarce means.”

<sup>6</sup> This statement is supported on pp. 10 ff.

the societies which released their full productive power were not as well endowed in either resources or skill (technology) as the societies which used to limp along with part of their productive power operating sporadically, yet the advantage the former derived from full production was so great that it more than neutralized these deficiencies for a while. And the societies which realized their full strength by using all their manpower, applied the wealth and power thus made available to the conquest and exploitation of their neighbors in order to impose on the rest of the world a servile order.

Thus putting the unemployed to work, which originally had been desired in order to eliminate the waste and demoralization of nonproduction and thereby to release the potentialities of the American people, had become necessary so that the United States might continue to be a free political entity. What had once been thought of as a step forward in social self-realization had become essential for national survival.

The work was approaching completion in 1941. The rising tension of that period suggested that a study of the causes of unemployment, despite its importance for the future, had become academic for the time being. Consequently, in the spring of that year, I put these pages to one side and went to Washington to contribute what I could to the preparation effort. Now the problem of peacetime unemployment has again come to the fore. It has seemed timely, therefore, to review the discarded thesis and to revise those paragraphs affected by subsequent events.

This study is submitted in the hope that its interpretation of our working procedure will assist us to surmount the threat to well-being which the stopping of military production and civilian reconstruction is likely to bring, so that we may continue marching toward the ideal, envisaged by the founders of our nation, of a society so designed that each of its citizens enjoys the freedom to be and to become whatever, within his capacities, he desires.

HAROLD LOEB

*Washington, D. C.*  
*March, 1944*

# Introduction

TO produce a good or to render a service requires action. In a money economy this action is accompanied usually by transactions of a financial character. Money is exchanged for manhours and materials, rent is paid over to the owners of property, and interest to the owners of debt. Profits may be distributed or losses allocated. The first process, production, makes wealth available for human use. The second process puts money, a human invention which usually gives the holder the power to acquire goods and services, into people's pockets. The wealth made available by the first process may be called "the available supply." The buying power released by the second process constitutes "effective demand."

The money issued in the productive process,<sup>1</sup> which consists of the cost of production plus a profit or minus a loss, must equal the money value<sup>2</sup> of the goods which are sold.<sup>3</sup> It is therefore evident that the supply which is sold equals the effective demand (profit or loss being included) issued in the process of producing the goods which are sold. This truism is usually called Say's law. It is sometimes stated as "supply creates its own demand."

A further deduction would seem plausible. Since more wealth is desired by all societies, and since supply creates its own demand, it seems as if a rational society in the ordinary course of events would produce all the wealth that it could.

Although we know from observation that this latter deduction is unsound, it has probably had a great deal to do with the direction which economic thinking has taken. Since the time of Ricardo,<sup>4</sup> economists have been largely concerned with the dis-

<sup>1</sup> Distributive activities are considered to be part of the productive process.

<sup>2</sup> The metaphysical concept of a "real" value other than exchange value (price times quantity) is irrelevant to this discussion. Value will be used as if it were synonymous with selling price times quantity, however the selling price may have been established.

<sup>3</sup> Not all goods would necessarily be sold. This and other complications will be taken up in due course.

<sup>4</sup> In a letter to Malthus, Ricardo wrote: "Political economy, you think, is an enquiry into the nature and causes of wealth; I think it should rather be called an enquiry into the laws which determine the division of the produce of industry among the classes which concur in its formation." (Letters to Malthus, page 175.) In the Preface to his *Principles*, he wrote: "To determine the laws which regulate this distribution, is the principal problem of Political Economy."



tribution of income and only to a minor extent with its creation. As a result, the possibility that less wealth might be produced than could be produced because demand <sup>5</sup> was deficient received little attention until recently. As Keynes puts it, "The idea that we can safely neglect the aggregate demand function is fundamental to the Ricardian economics, which underlie what we have been taught for more than a century. Malthus, indeed, had vehemently opposed Ricardo's doctrine that it was impossible for effective demand to be deficient; but vainly. For, since Malthus was unable to explain clearly (apart from an appeal to the facts of common observation) how and why effective demand could be deficient or excessive, he failed to furnish an alternative construction, and Ricardo conquered. Ricardo conquered England as completely as the Holy Inquisition conquered Spain. Not only was his theory accepted by the City, by statesmen and by the academic world, but controversy ceased; the other point of view completely disappeared; it ceased to be discussed. The great puzzle of Effective Demand with which Malthus had wrestled, vanished from economic literature. You will not find it mentioned even once in the whole works of Marshall, Edgeworth and Professor Pigou, from whose hands the classical theory has received its most mature embodiment. It could only live on furtively below the surface in the underworlds of Karl Marx, Silvio Gesell or Major Douglas." <sup>6</sup>

The study which follows will be concerned with the "puzzle" referred to in our quotation. It will seek to discover why the effective demand released in the productive process commands a supply less than the supply which could feasibly be produced, a problem akin to the problem which Malthus envisaged. The difficulty, as we shall see, does not lie in the release of a demand less than the value of the supply which *is produced*, but in the release of a demand less than the value of the supply which *could be produced*, an important distinction.

In pursuing this inquiry, the question of income distribution is relevant. But in the analysis which follows, the problem of

<sup>5</sup> The qualifying adjective "effective" is to be understood whenever the expression "demand" is used, unless it is otherwise stated.

<sup>6</sup> *The General Theory of Employment, Interest and Money*, John Maynard Keynes, Harcourt Brace & Howe, p. 32.

distribution is subordinated to the problem of nonproduction. It is touched upon only because it affects indirectly the quantity of wealth produced.

The analysis starts in Chapter II with the consideration of the nature of competition. The discussion will distinguish pure or price competition, in which production governs demand, from monopolistic competition, in which demand to a large extent governs production.

In Chapter III, a framework will be presented which will enable us to envisage the effect of changes in the various factors which constitute demand and supply upon the over-all equilibrium adjustment.<sup>7</sup> This framework will enable us *to translate the procedures of monopolistic competition into terms of the total economy*, thereby revealing the bearing of these procedures upon the over-all equilibrium adjustment.

Nonproduction is accounted for in Chapter IV by showing how the procedures of monopolistic competition, in which demand largely governs production, result in cyclic up and down surges and thereby in nonproduction.

In Chapter V the factors controlling the amplitude and limits of the business cycle are considered.

In Chapters VI and VII, suggestions are made concerning how an economy of monopolistic competition might be released to fulfill its potentialities, since the institution of an economy of pure or price competition is not feasible.

Several economic concepts are described and defined in Chapter I. This task is particularly necessary in an economic discussion because of the difference, sometimes wide, between the meaning of many economic expressions as used by economists and as used by laymen. An attempt is made to create a verbal frame of reference in which the reader and writer can meet, so that the reader can better check the line of the subsequent argument.

In certain of the footnotes and appendices, the relations described in the text are represented in mathematical terms. Some readers may find it desirable to skip these digressions on first reading in order to follow the line of the argument without interruption.

<sup>7</sup> Defined on p. 5.

# Contents

	<i>Page</i>
PREFACE	vii
INTRODUCTION	xi
CHAPTER I. THE PROBLEM IS DEFINED	
1. The national income, capital, money and other economic concepts are defined and examined	1
2. Price reflects both changes in efficiency and changes in consumer desires. The importance of this function is emphasized	5
3. Full employment would not necessarily maximize consumer satisfactions	14
4. Though full production could be achieved by exporting more goods than are imported, the resulting national income would not maximize satisfactions and the production could not be sustained indefinitely	20
CHAPTER II. PRICE AND MONOPOLISTIC COMPETITION	
1. Price competition is distinguished from monopolistic competition	24
2. In price competition, demand for the product of the individual producer is unlimited at the price prevailing. As a result, it is to the interest of each producer to operate at his most efficient or higher scale, and to refrain from avoidable selling expenditures or other extraneous costs	29
3. Though the administered price of monopolistic competition is higher than the market price of price competition, profit might be no greater were the monopolistic competition effective. However, <i>excess capacity</i> , inappreciable in a field of price competition, is a permanent and normal characteristic of producing units engaged in monopolistic competition	34
Appendix to 3. The foregoing discussion is recapitulated in geometrical terms	40
4. Price competition and monopolistic competition have advantages and disadvantages that are in some ways opposite	44
5. In fields of monopolistic competition, production is usually subject to decreasing costs. As a result, an increase in over-all production usually permits higher profits and wages	49

	<i>Page</i>
6. A different approach to the problem is indicated: an approach which takes into account the reciprocal relation of over-all demand and over-all supply	55
Appendix to II. An explanation is offered of the exceptions to the rule that current prices tend to maximize profits	57
 <b>CHAPTER III. THE DEMAND-SUPPLY ADJUSTMENT</b>	
1. The advance in efficiency is persistent and largely independent of the state of the economy. Its advance makes available increments of additional wealth	61
2. Three ways by which the economy might release the wealth increment made available by the advance in efficiency are suggested, as well as a reaction which would not release the wealth increment	65
3. The behavior of individual profit is distinguished from that of net over-all profit and the infeasibility of releasing a wealth increment by an increase in profit were other factors constant, is suggested	72
4. The practice of saving and investment and its effect upon the demand-supply relationship are considered	76
5. Were the wealth increment released by the creation and spending of new money, profits would be increased in relation to wages and an upsurge in production might be touched off	85
First Appendix to III. The advance in efficiency is estimated	90
Second Appendix to III. Income velocity	92
 <b>CHAPTER IV. THE RELEASE OF THE WEALTH INCREMENT</b>	
1. The wealth increment made available by the advance in efficiency has not been released in recent decades by reductions in the price level	95
2. Part of the wealth increment made available by the advance in efficiency has been released by way of higher wages. But the wage increases have not been synchronized with the efficiency advances, and cannot be relied upon to release the wealth increments	102
3. In fields of monopolistic competition, an advance in efficiency is likely to result in (1) a reduction in employment and demand, and (2) increased profit expectancy	106
4. A reduction in money paid out as costs in a field of monopolistic competition would touch off a downsurge of production unless its effect on over-all demand was counteracted by some other event	118

	<i>Page</i>
Appendix to 4. The situation of a producer in a field of monopolistic competition faced by a reduction in demand is represented graphically	120
5. Increased profit expectancy in a field of monopolistic competition might induce the creation and spending of new money sufficient to touch off a production upsurge	122
Appendix to 5. The situation of a producer in a field of monopolistic competition faced by an increase in demand is represented graphically	130
Appendix to IV. Statistical Tables	131
 <b>CHAPTER V. THE BUSINESS CYCLE</b>	
1. The demand-supply relation is re-stated in order to concentrate upon the critical phase of the equilibrium adjustment which pertains to nonproduction	141
2. Were the residual wealth increments released by the spending of new money by private agencies, capital formation would increase in respect to consumer goods production	144
3. During a production upsurge just sustained by the spending of new money, profit would be likely to increase at a diminishing rate, and eventually to decrease	151
Appendix to 3. The deductions of Section 3 in respect to profit during an upsurge induced by the spending of new money are represented in symbolic terms	156
4. In the contemporary economy, productions above and below a certain production would be unstable. The living standard depends largely upon the location of this equilibrium production	158
5. The effect of spending created money on new industries, public works, existing equities or charity, is considered as well as the possibility of a rise in the price level	173
Appendix to V. Certain assumptions are examined	185
 <b>CHAPTER VI. THE LIMITATIONS OF PRICE COMPETITION</b>	
1. The factors which induce nonproduction and unemployment as developed in the foregoing chapters would not operate in an economy of price competition	193
2. Many commodities, including those subject to decreasing costs and a limited demand, cannot feasibly be produced and distributed effectively by price or pure competition	197
Appendix to 2. The relationship described in Section 2 is expressed in geometrical terms	201
3. The condition of decreasing costs in combination with a limited demand frequently occurs where the division of	

	<i>Page</i>
labor permits the utilization of natural energy in the productive process. Since this condition precludes effective price competition, capacity production could not be attained by compelling industry to operate on a price competition basis	204
4. The historical record supports the theoretical considerations which suggest that capacity production and full employment are more likely to be attained by releasing monopolistic competition to realize its potentialities, than by instituting some other method of producing and distributing wealth	208
 <b>CHAPTER VII. FULL AND CAPACITY PRODUCTION</b>	
1. The scope of nonproduction would be reduced were the equilibrium production raised as production increased	213
2. Production could be increased when short of full by the spending of new money on public works or other outlets which did not compete with the products of private enterprise. However, the utility of the measure would be limited	217
3. Capital formation and the withholding of income could be limited by varying certain taxes. However, taxation would not be an effective instrument for increasing the propensity to consume	224
4. The propensity to consume could not be increased by imposing lower prices without arresting the free play of price on the market	231
5. The propensity to consume could be increased by raising the minimum wage without arresting the free play of price on the market	235
6. To correlate the three adjustments effectively would require that part of the public works program (Adjustment 1) should be elastic	247
7. Money, debt, prices, wages, foreign trade, and selling expenses are considered in connection with the program	253
8. The general feasibility of the proposed adjustments is reviewed	264
<b>CONCLUSION</b>	269
<b>INDEX</b>	279