

WHO OWNS AMERICA?

Chapter 1 -- The Fallacy of Mass Production

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An unprecedented collapse of business and a drastic shrinkage of the power to produce followed the growth of mass production and of large-scale industry. The question naturally arises whether mass production is practical, or whether it must inevitably lead to poverty and distress.

At first thought the idea that improvement in the technique of production should cause poverty seems too incongruous to be accepted. The apparent incongruity is caused by confusion between the technique itself and the system of industry by which it is used. Automatic factory technique, with increasing use of electric instruments instead of men as machine tenders, is efficient. It will turn out almost any kind of standard goods at low cost. But automatic production is not mass production. Mass production, as the term is ordinarily used, means the modern technique applied on a large scale by a large corporation. The poverty that follows the introduction of modern technology is not caused by technology, but by the financial and business practices that go with large-scale operation.

Mass production involves two kinds of economies—one internal, the other external. The internal economies are the result of technical factors: the “straight-line” process, leading the material through the factory from step to step without doubling back; the introduction of instruments and continuous machinery; and improved methods of personnel management. Internal economies generally represent a physical saving of material, labor, and time. These are real savings,

because the salvaged material, labor, and time may, with proper management, be turned to some useful purpose.

External economies are savings that occur, not in the shop, but in the purchase of raw materials and in marketing the product. They have little or nothing to do with the technology of production. A large corporation, because of its ability to deal in large quantities, can often obtain favorable prices in buying and selling. Favorable railroad rates are sometimes obtainable for the same reason.

There is a real saving of labor when materials are purchased in large lots. The farm or the mine can save expense by avoiding the trouble of peddling to a number of customers. Similarly, a railroad can handle goods more cheaply in trainload lots. External economies are to this extent real economies. But to a larger extent, they are merely the result of the bargaining power that comes with size. The small producer must accept whatever price is offered because he is cut off from access to any alternative market. In dealing with transportation agencies and with buyers, the large corporation has the benefit of being able to hurt anyone who fails to make suitable concessions. External economies of this kind are merely more or less polite forms of holdup.

The first fallacy of mass production, then, lies in the conception of economy. Internal economies are mainly matters of technique, mechanical and managerial, which can be found in small as well as in large factories. The advantage which large factories enjoy is their external economies. From the national viewpoint, most of the external economies of mass buying, mass transportation, and mass

selling are not economies at all. What is saved by the monopoly buyer is lost by the farmer or the miner who supplies the raw material. What is saved in transportation is only in part a real saving; part of it is simply a tribute levied by the stronger party on the weaker. What is gained by monopoly prices to the consumer is lost by the consumer. A large part of the external economies of mass production is made up of gains at the expense of weaker factors in the economic system. That is, much of the value of mass production is the value of being strong enough to operate a racket.

A second fallacy lies in the common observation that mass-production industries are apt to survive better than small-scale industries, and to pay better wages and offer better working conditions. The natural conclusion is that large industries are the stabilizing factor in the economic system, and that if there were more large industries and fewer small ones the system as a whole would be more stable and would offer better wages and better conditions.

Actually the strength of the large industries is not an element of strength in the nation, but an element of weakness. As the number of great "stable" monopolies and semi-monopolies has increased, so has the instability of the economic system. The reason is that the large business units attain stability at the expense of the small units. The local factory may be weak and liable to go bankrupt; the trust may be healthy and well regarded at the bank. But the trust is not, therefore, the strength of the nation. The squalor of the share croppers, the sweating of the needle trades, the poverty of the coal miners, are not proofs of

the inefficiency of small operations. They are proofs that the weak are oppressed by the strong.

Sometimes the strong oppress the weak by direct action; sometimes by indirect action, through evading the law of supply and demand. The law of supply and demand is one of the fundamentals of a capitalist system. The price of goods has to rise or fall freely in proportion to the supply and to the effective demand. By the same token, those companies that cannot follow a falling price without going bankrupt must go bankrupt. The law of capitalism is that, when the buying power of the people is diminished, prices must fall. If some prices fail to fall, others must fall farther to compensate. Consequently, if any large fraction of a capitalist system is able to organize and fix prices, the remaining fraction is forced to take all the brunt of price fluctuations. Large-scale industry has notoriously indulged in price and production control. With the onset of hard times, the large industries were able to cut their production schedule and to avoid severe price reductions, often saving themselves from bankruptcy. But small industries were unable to control their output; the full force of the deflation fell on them. Big Business, by escaping the common law of capitalism and avoiding price-cutting and bankruptcy, threw its share of the burden onto the weak. The extraordinary demoralization of small-scale industry in many fields, which we have seen since 1929, is in part the result of the ability of large-scale industry to rig the market.

The second fallacy of mass production, then, is the idea that strong, stable industries make a strong, stable nation. Actually, as industries have grown

stronger and better able to stabilize prices, the nation has grown weaker and more subject to chills and fever. Strong, stable industries weaken the economic system by throwing all the burden of maladjustment onto the weaker parts of the system. Price-fixing is a degenerative disease of capitalism; mass production has helped to paralyze production by giving an opportunity for price-fixing.

There is an obvious way out of the disorganization that now paralyzes our capitalist system. If the strong oppress the weak, why not abolish the weak? If price-fixing disorganizes the free-price system, why not abolish the free-price system? Why not organize the remaining small producers into great corporations that can hold their own? That would be a way out, but the implications of that way out should not be overlooked. To abolish the weak, to abolish competition, to abolish the free-price system, to abolish the law of supply and demand—all that means is to abolish capitalism and bring in communism. No economic system can operate without some controlling factor. If the capitalistic control—the law of supply and demand—is abolished, then there is no escape from State control. The State may establish control in the fascist form, or as a State capitalism of the Russian type; but the end of the process is necessarily communism. After the passing of the pioneer stage there is no way to preserve any form of free capitalism unless the field of free initiative and free prices is preserved. Small business is not only essential to a capitalist system, it is the capitalist system. Big Business is a parasitic disease of capitalism which if not checked will necessarily be fatal.

To a communist the notion of wanting to avoid communism naturally would seem absurd. To others, however, there may seem to be more or less valid reasons for desiring a free system. The problem of preserving a free system is now agitating the American people. A large part of that problem consists of the question of what to do with Big Business and mass production. The answer appears to be in two parts: one, to do away with mass production and substitute high-technology production in smaller units; the other, to retain mass production where necessary, but to divorce it from the business system upon which it has such unfortunate effects. Another way of putting it is this: small-scale industry may be operated as a capitalist system; large-scale industry is practical only in a socialist system. High-technology production must, therefore, be used either in small factories, or, where large operations are essential, in mass industries owned by the Government.

The optimum size of a factory varies for each kind of industry. Disregarding for the moment all the external economies that come with the power to force concessions, and considering only those economies that consist of actually saving labor and materials, we may get a crude picture of optimum size as related to the national interest. In order to have the best technical processes, a coat-hanger factory can be built for a few thousand dollars, a tire factory for a few hundred thousand, a sugar factory for a few million. These products, moreover, can be used without further servicing as they come out of the factory. In the case of automobiles, which in the hands of the user require frequent expert attention, the case is somewhat different. Each make of car must be so numerous that the

owner can find the necessary services anywhere in the United States. The market is apparently large enough to absorb twenty or thirty kinds of car on this basis. Standardization of many small parts and of such things as screw threads and other connections simplifies the job of servicing and permits a larger amount of diversity in the assembled automobile.

In practice, the automobile is on the borderline between large and small industry. There is some competition in automobiles, and the quality tends to improve with falling prices. On the other hand, competition is not so complete as to prevent some control of output. When the market collapsed after 1929, automobile prices failed to drop in proportion to wheat and cotton. Volume of automobile production fell off noticeably. Thus the industry contributed to the violence of the depression, though not to the same extent as the steel industry, which was able to peg the price of rails for years at a stretch in the face of falling markets.

Above the borderline stand the great natural monopolies, which can be operated efficiently only on a national scale. Many of them are not mass-production industries in the usual sense of the term, although all are affected by modern technology. The post office, the army and navy, and the lighthouse service have already passed from private business into national monopolies. The railways and the main highway systems are on the way. Oil and natural gas are already showing the need for monopoly control as a measure of conservation; at the same time giving the usual demonstration of the intolerable behavior of monopoly in private hands.

Electric power is a peculiar case. In spite of the high efficiency of the Diesel engine, the ultimate destiny of power seems to be a national network into which nearly all generating units will pour their current, while the load moves daily across the continent with the sun. The holding companies were building the great network, but the men who were organizing the holding companies could not refrain from milking the system beyond what the traffic would bear. The Government is obliged to break up the industry by laws against holding companies, and to force rate reductions by introducing the T.V.A. and encouraging local Diesel plants. Mass production of electricity turned out to be inefficient because of the way it was organized. Temporarily, the public can get better rates and the investors better dividends by breaking down the network. In the long run, the network will have to be built up again, but under public ownership.

The line between industries that should be broken down into smaller units and those that should be taken over by the Government cannot be exactly drawn. There will always be a border area where corporations are too large to avoid price-fixing and not bad enough to require government ownership. The system can tolerate some large business provided there is not too much of it. Government ownership, moreover, has its disadvantages.

A publicly owned business, such as the post office, suffers from the fact that there is no rational relationship between wages and prices. The post office is not a profit-making business, but a public service to be paid for by the public either through rates or through taxes as may appear most convenient. Wages and

postal rates can be decided only by the Congress, in accordance with the will of the people, if anyone knows what that is.

The value of public ownership is to remove monopoly from the business system. Profit-making monopoly is disastrous to free business because of its inevitable effect in restricting production and pegging prices at a high level, while excluding new competitors from the market. Public monopoly can avoid hurting free business only by disregarding profits, preserving wages, and lowering prices in hard times. The difficulty of getting action for the public good was illustrated by the post office, which, when the depression came, should have cut the letter rate to one cent as an aid to business. Instead it acted like a private monopoly and raised the rate to three cents in an effort to make a profit at the expense of business. If many additional enterprises must be nationalized, the difficulty of preventing them from continuing to act like private monopolies will be considerable.

The illusion persists that business should always be operated in a businesslike way, i.e., with a view to profit. The survival of capitalism depends on realization of the fact that monopoly is not business at all, but public service, to be operated with a single eye to the public benefit.

The graft and inefficiency of governmental operation is only a minor matter. Big Business has given an exhibition of graft, sabotage, and corruption that has been equaled only in some of the city governments which were most closely under Big Business domination. Graft and inefficiency are common though not universal characteristics of large operations, public or private. The chief objection

to public ownership of mass-production industry is the extreme difficulty of freeing the wage and price policies from the attempt to make a book profit. The moral appears to be that, unless all business whatsoever is to be taken over and the profit system abolished entirely, the greatest efforts should be made to break up mass production into small competing units wherever the technology will permit.

Instead of attempting to make lists of industries and of their allowable sizes, a more practical way of approach is through the tax system. The most important contribution of the New Deal before 1936 was the taxation of corporations in proportion to their size. When the differential can be made severe enough, there will be results. Within any given industry, the concern that tries to grow beyond the point of maximum efficiency will be penalized, giving the advantage to smaller concerns. Thus the benefits of technology may be in part divorced from the ill-effects of mass production, and mechanical efficiency may be less often used as a cloak for banditry.

As between one industry and another, the tax on size clearly gives an advantage to that industry which can conveniently operate in small units. The maker of coat-hangers would pay lower taxes than the maker of sugar, and in consequence the consumer would pay less for coat-hangers and more for sugar. There is, of course, no special virtue in using many coat-hangers, and no special vice in eating candy, that can justify taxing one differently from the other. The justification lies in the fact that small industries are harmless in themselves; large industries have power to corrupt government, obstruct justice, and oppress the

people. For that reason the consumer should pay an extra tax when he buys the product—however harmless—of a large industry which constitutes a danger to the State.

Planning to restrict the growth of large business by tax policies is more in accord with the American way of thinking than planning by lists and schedules. Under high taxation, large concerns will still be large if efficiency makes large size worth the price. But they are less likely to be large for reasons of high finance.

One of the advantages of getting away from mass production will be in the geographic decentralization of industry. Not only has American industry been concentrated into the hands of a small group of millionaires; it has also been centralized into the areas surrounding large cities. The effect has been a progressive degeneration of the rural economic life. Farm debts have become too heavy to bear. For a time the situation was relieved by lending more money to the farmers to cover their inability to pay their old debts—just as we covered the unpayable war debts for a while by continued lending. In the end, however, there can be no balance between the metropolis and the hinterland unless the hinterland can have income of its own large enough to carry its standard of living.

Many areas with good farming land ought to be inhabited and utilized, yet they cannot support a full set of modern community services from their agricultural income alone. They need small factories scattered about, to supplement the income of the farm population and to provide the money to send to Sears Roebuck without going in debt. Small factories are disappearing from

the rural areas because they cannot fight against the monopoly powers of Big Business. A suitable skepticism as to the alleged efficiency of mass production will prepare the way for restraining the great rackets that interfere with decentralized local industries.

The individual efficiency of small plants is not their sole justification, but in fact the small plants often are more efficient than large ones. The management of a small plant in a rural area may have a personal relation to the workers that promotes efficiency. Small plants can use local material or local talents for quality products that command a premium in the market. Sometimes, especially if consumer co-operatives are established in a region, a local plant may short-circuit the established trade channel running to the city and may serve the people of its own neighborhood at a great saving in cost. There are many ways in which decentralized locally owned plants may show themselves economically justified, provided they are given a fair field and protected from rackets. But the national interest in decentralization is not dependent on physical efficiency alone.

When the people of one area are in debt and going deeper year by year, and the creditors, growing richer all the time, live in a different area, the nation will be subjected to disruptive strains. The debtor sections want moratoriums or inflation, the creditors want "sound money" and protection of the sanctity of contracts. The conflict interferes with the overall efficiency of the economic system. From the national standpoint, the main virtue of small decentralized industry is that it will reduce the strain between unbalanced sections of the nation. Regional self-sufficiency is a means of avoiding sectional conflict, just as national self-

sufficiency is a means of keeping out of other people's wars. The efficiency of the nation as a whole, and the peaceful relation of its parts, will be improved by spreading as many industries as possible among the agricultural areas.

The theory that mass production, involving the concentration of each industry in a specialized area, is a means of efficiency is therefore a fallacy. The internal efficiency of the industry may be improved by having everything concentrated, or it may not; but the overall effect on the nation is to set up major dislocations of trade and to overstrain the adjusting powers of the Federal Government.

The spectacular growth of certain great trusts and industrial mammoths has produced the hopeless feeling that mass production is an inevitable trend. The saying is that we cannot turn back the hands of the clock, although there are few machines, even clocks, that cannot be turned backward as well as forward. Actually most biological processes go always forward, but almost never continuously upward. The dinosaur and the woolly mammoth grew great, failed to develop the necessary brains to adapt themselves to a changing environment, and passed off the stage. So may the mammoths of industry.

The spontaneous trends toward decentralization of ownership, and even of location, are still quiet and unnoticed, just as were the weak and uncombed ancestors of man in the Age of Monsters. There is the growing use of electric power, freeing the machine from the steam power plant. Power is a small item in the cost of most products, but the fact that it can be delivered through a wire is important. Even the rates are of some consequence, as is shown by the great increase of use that follows rate reductions.

With the increasing pressure toward lower electric rates, many functions are going back again into the home. With electric machines the housekeeper can do many jobs that were for a while more efficiently done in the factory. The home machine may be idle most of the time, but it produces the product directly in the hands of the consumer without the costs and risks of the market. This is technological decentralization in an extreme form, and the extent to which it will occur with lower electric rates is only beginning to be realized. The electric current and the electric machines themselves are factory products, but they represent the use of factories to do away with factories.

The concrete road has already dealt a severe blow to the railroads. Automobiles are an escape from the mass production of transportation. Instead of traveling in groups of several hundred on a train, most of us now travel in our own cars when and where we please. Here again, gasoline and automobiles are factory products used for decentralized travel in place of the centralized travel of the railroads.

These tendencies toward small-scale production are as yet ineffective in face of the pressure of high finance toward centralization. Yet they may become cumulative as they develop. Automobiles and home machinery take traffic from the railroads, which with increasing technological efficiency are still unable to lower their rates. National advertising grows more expensive as the people grow insensitive to louder and louder appeals. The overhead costs of centralized production tend to grow and finally to outstrip the economies of technology. Then

only the use of racketeering power by the central banks can prevent the success of small unhampered competitors.

Finally, with the repeated failures of Big Business to provide security and plenty, the time must come when the people will drastically limit the power of the great rackets that have grown up about mass production. Perhaps the New Deal will develop into the New Adjustment. Perhaps the conservatives will win an election, and smash the system more thoroughly than they were able to do in 1929. Either way, the end has to come. From there on, there are only two roads toward a practical use of technology.

The road that is now being followed in Russia is that of State capitalism, theoretically intended to lead ultimately to a communist system in which there would be no political State. With centralized planning, controlling a decentralized hierarchy similar to that of any great corporation, the whole nation can be operated on a mass-production basis. The dislocations that attend mass production under free capitalism are prevented by abolishing private enterprise, with all its faults and virtues.

The objections to communist State capitalism in America are several. Americans do not like the idea, which is a real obstacle to making it work. The possibility of successful planning of a plenty system in which most of the products are necessarily luxuries is yet to be shown. Finally, the advantage of free initiative in developing active minds may be crucial at later stages of human progress. In any case, for good or bad reasons, the American people will try the alternative if they can.

The alternative adjustment, if it can be attained, will consist essentially in freeing capitalism from high finance—in freeing small business from the domination of Big Business. Mass production in private hands, we must recognize, is not workable in a capitalist system. Those industries where mass production is no more efficient than high-technology production on a small scale can be decentralized and made to operate in the free market according to the standard theory of capitalism—provided the people are willing to use their political power to prevent financial domination and racketeering. Other industries that cannot show a reasonable efficiency except in large-scale operation can be tolerated only if they are removed bodily from the capitalist system and run as public services. By such a double adjustment, decentralization one way and public ownership the other, a capitalist system can be made to work if we are prepared to take the necessary measures.

The principal fallacy of mass production, then, is the idea that it is the same thing as high technology and that it must therefore be accepted, whatever the consequences. Actually, in a capitalist system, mass production is usually a mere camouflage for high-finance manipulation of business, to the detriment of the commonwealth and the impoverishment of the nation.