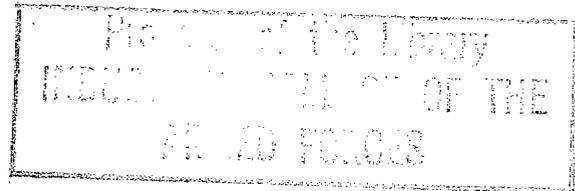




## MANAGEMENT'S VIEW OF CURRENT U.S. ECONOMIC POLICY

Mr. Theodore O. Yntema

### NOTICE



This lecture has not been edited by the speaker. It has been reproduced directly from the reporter's notes for the students and faculty for reference and study purposes.

You have been granted access to this unedited transcript under the same restrictions imposed on lecture attendance namely, no notes or extracts will be made and you will not discuss it other than in the conduct of official business.

No direct quotations are to be made either in written reports or in oral presentations based on this unedited copy.

Reviewed by Col R. W. Bergamy, USAF on 20 November 1963.

INDUSTRIAL COLLEGE OF THE ARMED FORCES  
WASHINGTON, D. C.

1963 - 1964

MANAGEMENT'S VIEW OF CURRENT U.S. ECONOMIC POLICY

7 November 1963

CONTENTS

	<u>Page</u>
INTRODUCTION--Vice Admiral Rufus E. Rose, USN, Commandant, ICAF.....	1
SPEAKER--Mr. Theodore O. Yntema, Director, Vice President, and Chairman, Finance Committee, Ford Motor Company.....	1
GENERAL DISCUSSION.....	25

NOTICE

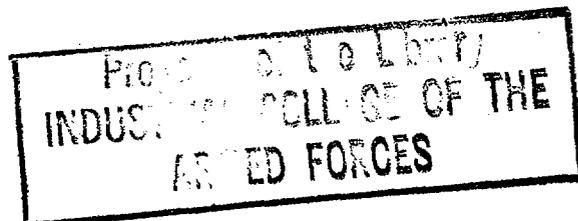
This lecture has not been edited by the speaker. It has been reproduced directly from the reporter's notes for the students and faculty for reference and study purposes.

You have been given a copy of this unedited transcript under the same conditions of attendance; namely, no notes or citations will be allowed and you will not discuss it other than in the context of a social business.

No direct quotations are to be made either in written reports or in oral presentations based on this unedited copy.

Reviewed by: Col R. W. Bergamy, USA Date: 20 November 1963

Reporter--Grace R. O'Toole



Publication No. L64-62

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington 25, D. C.

MANAGEMENT'S VIEW OF CURRENT U.S. ECONOMIC POLICY

7 November 1963

ADMIRAL ROSE: Gentlemen: In our study of U. S. economic policy certainly a very important part of it is the view of top industrialists on just that subject, because it is, after all, for what the U. S. States makes that one pays the taxes--except the small part that we pay, of course, in our personal income taxes--and also controls what we do in overseas trade.

As you have seen from his biographical sketch, we are doubly fortunate to hear from a man who has both theoretical knowledge and a practical business man's understanding of economics.

Mr. Yntema, who is a Vice President, Member of the Board of Directors, and Chairman of the Finance Committee of the Ford Motor Company, will discuss "Management's View of Current U. S. Economic Policy."

Gentlemen, Mr. Yntema.

MR. YNTEMA: Thank you, Admiral. I am genuinely honored to be here and to participate in your studies. Let me say that, as I looked over the curriculum for Unit III, "Economic Policies for National Strength," I was very much impressed by the quality of the planning and analysis and the excellence of the work that went into it, and I congratulate whoever is responsible.

I was a school teacher for 25 years, and I never liked to lecture, but I did like to discuss things with my classes. It may not be the practice here to interrupt, but if it were appropriate I would suggest

that any time you want to ask a question that you do so, and certainly I look forward to the discussion after my general remarks.

I have been asked to do an impossible job. You've looked at the scope of the subject matter. I have been asked to present a critique of all this from the management viewpoint. Of course this is impossible. Business men don't have a viewpoint. They are not quite as different as the whole range of the citizenry but their views do range over a very wide spectrum that has many dimensions, from the uninformed to the well informed, from really quite naive views to highly sophisticated ones, from stupid to intelligent, and from narrowly selfish to very broad-gauged, deep concern for the public interest.

But there are some similarities and views, and I think these stem from the experiences of the business men, that do tend to condition them in some respects. I should say that business men, like you, wear two hats. In the first place they are business men, and they are struggling in the economic and the political arena with other forces. In the second place they are citizens, heads of families, and they are concerned for the welfare of the country as far as their own life is concerned and the lives of their children and other people. These sometimes involve conflicting points of view.

My comments, of course, necessarily reflect my own background both as a professional economist and as a business man, and I don't want you to think that my views are necessarily typical, but I think

they are not atypical of the kinds of views that are held by the kind of people, sort of business men, who get together in the Committee of Economic Development. This is an organization with which I have been associated for the past 20 years. I think most of you know about it.

It is a rather remarkable organization, because this is a group of business men, and very busy business men, too, mostly heads of companies, who try to pick out the important economic problems of our time and then to try to study them in depth with the best technical assistance they can get, and then try to arrive at policy recommendations in regard to these problems.

Now, I have been asked to appraise current economic policy in regard to economic stability, economic growth, capital investment, unemployment, automation, labor-management problems, and antitrust problems. Well, I am going to rearrange these subjects, and I'll add a few more so I won't be fenced in.

I think it might be interesting to you if I just read the list of the titles of the policy statements that have been issued by the Committee of Economic Development, the business men's group, as I said, over the past 5 years, because it will give you some idea of what concerns them and the subjects on which they, I think, deal with, if they can, with the best technical help, and have something worth while to say. I'll just read the list of these.

Economic Growth in the United States.

Defense Against Inflation.

Policies for Price Stability in a Growing Economy.

The Problem of National Security: Some Economic and Administrative Aspects.

The Budget and Economic Growth.

The European Common Market and Its Meaning to the United States.

Paying for Better Public Schools.

National Objectives and the Balance of Payments Problem.

Guiding Metropolitan Growth.

Growth and Taxes: Steps for 1961.

Cooperation for Progress in Latin America.

The International Position of the Dollar.

Distressed Areas in a Growing Economy.

Fiscal and Monetary Policy for High Employment.

Economic Literacy for Americans.

A New Trade Policy for the United States.

An Adaptive Program for Agriculture. (When we got that one done all hell broke loose, as you may remember.)

Reducing Tax Rates for Production and Growth.

Japan and the Free World Economy.

Now, the subjects on which the group are currently at work are the following:

International Financial Systems.

Labor Policy Toward A Balance Between Union Power and Union Function.

Economic Development in the Central American-Caribbean Region.

Next Steps in Trade Negotiations.

The Use of Agricultural Surpluses in Foreign Assistance.

The Role of Indirect Taxes in the Federal Revenue System.

The Adaptation of the Economy to Changes. (This includes automation et cetera.)

Collegiate Education for Business.

Urban Transportation.

Improvement of Government Management.

This is the kind of thing that business men who are trying to think about the problems of the economy have concerned themselves with.

Today I'd like to make just a few comments on these very large subjects. There are seven subjects on which I want to make brief observations.

The first is the scope of government versus the scope of private economic activity.

The second is the preservation of competition in the economy. In particular, a few words on antitrust regulation.

The third is the grants of monopoly privilege to some groups in the economy--agriculture and labor--the unions.

The fourth is economic instability, that is, inflation and depression.

The fifth is the adaptation of the economy to change. This involves some observations on automation and structural unemployment.

The sixth is the conditions for economic growth.

Then just a few comments on the role of management in business, and all this.

First, the scope of government and the scope of private economic activity. I think that most business men think government is too big. This is a more or less uniform reaction. In part I think this is the reaction of business men who have to pay very high taxes, at least marginal taxes, if they make any money. But I don't think it's just that. I think it is also something more than that. I think the business man sees what happens. That is, taxes encroach on incentives to work and invest. He sees the Government take perhaps three-quarters or nine-tenths of his own income and over half of other income. The Government is a major partner in his business.

He has some difficulties as a small business man in accumulating capital which is needed for his operation. He sees some inefficiencies in government operations. He sees this lack of relationship between benefit and cost. I mean, the government services are by and large for free. Of course they are scarce when they are for free, as far as the particular individual is concerned, or groups. He sees the clamor for government expenditures by groups to be benefited and the very large sums that are spent for the benefit of certain pressure groups. He sees the use of Federal funds for political purposes. This is also true of State and local funds. And he sees the more or less occasional graft in government.

Now, I am not saying that business is pure. That's not the point. But he does see these things happening. I think he gets concerned about them as a citizen. And I think he takes the view in general that, of course, there are many things that the Government must do. Government

obviously has to conduct administrative, executive, legislative and judicial functions. I think it has to have an activity for national defense. You wouldn't conceive of that being done on a private basis, by mercenaries. You have to have a law-enforcement agency, and so on. You must also have control of the money supply. These are traditionally government functions, although not entirely, if you go back.

The business man sees that the Government has gone a long way beyond that, and there are many cases where work might be done by government or by private activity. I think he feels in general that if there is a more or less even balance you had better pump on the side of private activity.

Now, the business man, however, will take the opposite point of view when his own community is involved or when his own business is involved. He will clamor just as loud as anybody else to get a contract or to get public works that will benefit activities with which he is associated. This, of course, illustrates the contrast between his views as an individual, with particular interests, and his views, I think, of the general economy.

But still, as a general thing, I think he has antipathy toward excessive public spending. The current business support for the tax bill, in spite of the fact that there is the deficit, and with the realization that the deficit can be increased, at least temporarily, by the tax cut, I think stems largely from the view that government is too big, and that the only way you can keep it from getting bigger is not to let it have

more money. If the revenues of the Government are reduced, probably the expenditures will be made somewhat to fit the receipts.

On the other hand, the business man isn't totally logical in all this. He will accept what has been and what is. I mean, our postal system is a socialist institution and everybody accepts it. On the other hand, the telephone business is a private operation. Our higher education, for example, is conducted in our State universities as a socialistic activity, too. We provide something at a cut-rate price. These sorts of things get accepted. I sometimes think we don't scrutinize them carefully enough. Just because they have been this way doesn't mean that they should be this way.

Let me say that in large part I share the views of business men that government is very big. It's bigger than it has ever been. The total revenues of government take over 30 percent of the total net national product, that is, gross national product less the consumption of capital. It takes about 31 percent. This has been growing gradually both because of the increase in State and local expenditures and of course the Federal expenditures.

I do share the view that these very high taxes do affect and distort economic decisions and that in many instances government spending is wasteful, not always, but maybe so, and that government spending for special local benefits, especially where competitive bidding is not feasible, poses a very, very great hazard to our public and political morality. This is something that might concern you in the Defense

Department. You've seen some of this happening already. The boondoggling and the pork barrel for rivers and harbors are just nothing as compared with what could happen in the area of defense expenditures if you don't have effective competition and an objective sort of basis for choosing who gets what.

Well, there is much more that could be said about this. By and large, I think that competition is more effective than government regulation and that competition and the attendant freedom of choice really do provide the necessary foundation for the way of life as we have it. If government gets too big, interferes too much, and does too much, I think we lose a great deal of personal freedom, and perhaps eventually we could have a change even in the political system. I don't want to cry, "Wolf! Wolf!" but I think that our views and our personal freedoms are founded to a considerable extent upon our economic freedom.

This leads to the next point, and that is preservation of competition. I think generally business men believe in competition and the necessity for antitrust laws. Of course, again we are ambivalent with respect to this. Most of us like to escape from competition. We want security. So we will differentiate our products and we'll advertise the differentiation. If it is possible to patent something, we try to get protection that way. I mean, we all tend to escape from competition although we believe in it.

But at the same time I think that, even though we we always do try to escape from it, we also realize that we must have competition in order

to keep prices down and in order to stimulate product improvement and cost reduction. Now, as regards the administration of the antitrust laws, I think management views are sometimes quite critical. On occasion--and this has been highlighted in the papers--the antitrust laws and facilities have been used as a club to threaten and to harass business men, and I must say this is bitterly resented, and I think rightly so. I don't think it is an appropriate activity of government to use the laws and the powers of the Government to accomplish some other aim than that which is written into our statute books.

I think that business men resent, too, the efforts by men in public office to make a name for themselves by attacking big business. Some of this goes on. People are concerned with their own reputations sometimes as much as they are with the welfare of the country.

Now, as regards the legal and technical aspects of the antitrust laws, I simply don't know enough about them to comment. Let me come to my next point. These are more or less random observations that may spark some reactions among you.

The next point is monopoly grants of power, and in particular the grants to agriculture and to labor. Now, in agriculture there is an interesting situation. Of course the problem is this, that demand for agricultural products doesn't have a high income elasticity. As incomes go up we don't eat a lot more. We do eat some higher cost foods but our consumption of agricultural products doesn't expand the way our consumption of travel does. In the last 50 years travel per

capita has increased twelve fold, but we don't eat twelve times as much per capita as we did 50 years ago.

So you have a situation in agriculture in which the demand is not expansive as incomes increase. There is an extremely rapid increase in productivity in agriculture. The output per man hour in agriculture has been going up about twice as fast as it has in manufacture. What this means, of course, is that we don't need as many resources to produce a given amount of agricultural products. So that you are going to have an oversupply of agricultural products unless you move resources out of agriculture.

This is one of the criteria of progress. Russia is in trouble today because she can't achieve the same kind of efficiency in agriculture as we do. This creates a problem here because the resources don't move out fast enough--the people don't move off the farms fast enough--into other kinds of occupations. There is a sort of nostalgic view of agriculture, and I think rightly so, as being a kind of bedrock to the country's political structure. So what has happened here is that we have used the powers of government to establish controls over supply and monopoly prices for many farm products. As a result there are resources kept in agriculture that could be very useful and productive in other activities.

It isn't a simple thing to get them out, but they are moving out. I mean, people are moving off the farms, and they will go off the farm as productivity on the farm increases. But in the process what we have

done is to slow up this movement, and we have also spent very, very large sums of public funds. The cost of storage of these products has run as high as a billion dollars a year, which is a lot of money, to keep things stored. The total expenditures for agriculture, one way or another, have run about as high as half of the total income produced in the agricultural sector of the economy. They're simply enormous.

This is one area where I think we have relative inefficiency. I'm not criticizing the farmer. He's got a tough situation and he isn't getting rich off this. But what we need to do is to help the people to move off the farms into other productive activities, because they are just not needed on the farms.

The problem of labor is probably one of the most perplexing structural problems we have. It's got all mixed up with slogans and what not that labor is not a commodity, for example, and the attitude that the more monopoly power unions have over wages the better. These, I think, are beginning to be brought into question. Let me say this, please. I am going to talk quite frankly about labor. Please don't quote me. I don't want to get into a fight about this. You are going to have a labor representative coming up. Don't say that Ted Yntema said so and so, if you don't mind. Let me talk very frankly and strictly off the record. And don't say a previous speaker said so and so.

I'd just like to raise these questions with you. Here is a real, daily, tough problem. This was on the agenda for the Committee for

Economic Development. I was a research director over 20 years ago. For 20 years we have stewed over this, and we don't know what to say about it. There isn't any doubt that if you go back a goodly number of years the boss took advantage of the relatively weak position of the worker in many cases, and the workers did need to organize to protect themselves, to preserve their dignity, and to have some sort of equality in dealing with employers.

Well, then the pendulum swung away, away over, and it's a general feeling, I think, among union leaders that they ought to be able and are justified in getting all they can by their power. The more power they have the better, and the more they can get the better, and the more rapidly they can push up wages the better. Well, let's take a look at this one.

The fact is that, in spite of all the union developments--and only about 25 percent of the workers are unionized--the share of salaries and wages in the total national product really hasn't changed very much. It's just about the same, in spite of the changes. Money wages are pushed up in some cases, but these union workers, by and large, are not the bottom of the heap. Union workers are middle-income people, most of them. It is true that the union workers in many instances are enabled to get substantially higher money wages than they would have got if they weren't in unions. This comes out, I think, of the hide of the people who are above them and the people who are below them, because those who are not in unions and don't have the monopoly power have this situation

to face: When the unions force up wages in the unionized area, this means that fewer people will be employed in that area, because we'll have more substitution of machinery. This means that there are going to be more people employed in the nonunion areas, and this will tend to keep wages down in these other areas. Whether this works out to the good of the country, I think, is really somewhat doubtful-- to have as much power over wage rates as some unions do possess.

This raises another problem on which economists don't wholly agree, by any means, and that is the extent to which union power produces a cost-push inflation, that is, the tendency to push wages up year after year, even though there is an adequate supply of labor. Ordinarily, if there is a supply of a commodity and the current price exceeds the demand, you find that price goes down. This does not happen in the labor market. We have excessive unemployment, but wages don't drop; they go up so fast that you've got something operating here which is different from the ordinary market processes.

This raises a very fundamental difficulty for fiscal-monetary policy. Perhaps I ought to just move to that now, to the question of economic stability, and inflation and recession. In recent years we have had really quite a high degree of price stability, but we've also had a good deal of unemployment, averaging about 6 percent. If you are willing to tolerate that kind of unemployment, it is quite apparent that you can get economic stability--a fairly stable price level and probably protection against depressions.

On the other hand, that's not a very satisfactory situation. We'd like to have more people at work and less unemployment. Here I'd like to interject. I don't know how many of you know all this. I don't want to talk about the obvious. But I think our economic situation as far as stability is concerned is quite different from what it was pre-1930 or even pre-World War II. What has happened in the last 30 years is, first of all, that we've gone off the gold standard. You can't yank the rug out from underneath the money system.

In the second place, we've got a pay-as-you-go tax system, and also some unemployment compensation, and these provide automatic stabilizers. If you want to know more about it, I'll discuss it, but I have limited time.

I think we know a great deal more about fiscal and monetary policy than we did 30 years ago. And I think we've made great progress in the structure of our economy, and also in our knowledge about how to deal with economic instability.

I think that there are just two critical problems here. I don't mean everything is ~~perfect~~. I mean the really important problems are two. One is the problem that is created by cost-push inflation. The other one is the balance of payments problem. These are the two things that hem in the possibilities of using monetary and fiscal policy to achieve economic stability.

We don't have the answers to either one of these, to be frank about it. These ~~are~~ two major unsolved problems. If we are going to use monetary

and fiscal means to increase demand, to increase economic incentives, to get things going, to expand production, then we must have enough competition in the system among businesses and among workers also so that, as soon as you get expansion of activity, prices don't start to go up too fast. This is one of the critical things.

The other is the problem of the balance of payments. I know this is a very sensitive sort of thing. Maybe I shouldn't talk about it at all. There is a lot of myth and a lot of tradition, and I suspect a whole lot of things that aren't so in this area. If you look back to the middle 1920's, if anybody had said, "Look, in the next 10 years we are going to go off the gold standard, and it's a good thing to do this domestically," I think he'd have been called a Communist or worse. And this now has happened and everybody has accepted it.

Well, the value of the dollar in international payments is involved in a whole set of structures and traditions. We defend it as we would the flag, almost, as a symbol of strength. It also is a fixed price. Whenever you introduce a fixed price into a situation where there is fluctuating demand and supply, you are going to have to make accommodations in the demand and supply. If we don't, we won't let the price move.

Now, I know the problem is not as simple as this. I know there are all kinds of institutional factors, all sorts of prestige values. All I would say is that this is really a major, unsolved problem. And people talk about discipline, and say that what we need is discipline in the balance of payments. This means we are not going to behave unless we

establish some sort of device to make us behave. Well, there is some truth in this. Discipline has been important, I think, in keeping cost-push inflation within bounds.

But this is a very important, unsolved problem. The situation we are in today is practically, of course, the result of our efforts to help other people. It's partly the result of the shift from the shortage of the dollar. It's the result of the extraordinarily fast increases in productivity in other countries. It isn't so much that we have done so badly. It's just that others have done so well.

Anyhow, let me say that this is one of the matters about which economists and people concerned with our financial structure ought to do some thinking. Maybe history will evolve and force us to do some changes as it did with respect to other matters. I don't know.

Just one comment--what we are doing in our international payments is investing long and borrowing short. The balance of payments is not fundamentally adverse. It is not that we are getting poorer. We are actually increasing our long-term investments abroad and borrowing short from abroad. This can get you into a liquidity situation and some difficulty.

Let me go on to the next point, the adaptation of the economy to change. This is a matter of automation and structural unemployment. This problem has appeared to be acute over some years where we have had an average of 6 percent unemployment. It doesn't take a lot of brilliance to see that if a person gets displaced from a job and there is a high

degree of unemployment, it's going to be hard for him to find another job. This is the situation that we have . I don't think that any single thing would do as much for the problems of structural unemployment, for depressed areas, as to achieve a full use of our facilities and reasonably full employment. If a person gets out of a job, it isn't too difficult to get a job, if he's any good, provided there are jobs to be had. So far away the most important thing in dealing with displacements arising out of automation--this is just economic progress, learning how to do things more efficiently--is to achieve a high level of job offerings, a high level of employment, so that people who get out of jobs in one place can find jobs in other places.

Now, we have some advantages and some disadvantages here. People have a much higher degree of mobility than they have ever had before. The automobile and the higher level of income are the two factors that produce this. So geographical mobility we have, much, much better than we used to have.

On the other hand, there is a new revolution going on. C. P. Snow calls it the scientific revolution. As we had in the industrial revolution, this is the application of power to processes. Now, we have a scientific revolution, and this has put a lot of thinkers out of work, or a lot of paper pushers out of work, and also a lot of operators, because you may have computers now to run machines and to do some of the kinds of thinking that machine operators used to do.

Just how this is going to work out, I don't know. What we do see

is a decline in the opportunities for unskilled labor, and even in the number of stenographers--believe it or not--but a great increase in secretarial jobs. We see changes in the work force, so that the simpler jobs become less numerous, and there is an increasing demand for more sophisticated, more talented, people.

This may raise some difficulties in the adjustment of job opportunities to abilities and training. I think it highlights the fact that we need more education even than we now have. But, even so, this may raise a problem. Don't quote me on this. Public relations people will wring my neck, but I'll say it. There is just a little bit of point in this story.

In the middle 1920's there were approximately some 25 million horses and mules in this country. Just think back. For thousands of years men relied upon animal power to do their agricultural hauling and hard work. All of a sudden they've gone--90 percent of them are gone. What happened here is that the internal combustion engine and applications of it just replaced the horsepower. The trouble is that the horse is not very bright and it's not very adaptable. He was doing an unskilled job and the machine could do it better.

This is happening in other places in the economy, too, and we are going to have real problems, I think, in adapting the skills of the individuals to the changing structure of jobs in the economy. I don't mean to say that horses and people are exactly comparable, but this is quite a dramatic illustration of what can happen to the structure of work

to be done, and the shift in the kinds of talents and facilities that are required to do it. We are having some of this today. This is a problem which I think requires some attention.

Well, I come now to a few comments on economic growth. This is a pet subject of the propagandists. It's not an easy subject, either, on which to talk sense. There's a lot of talk that we ought to have 5 percent of economic growth, or 4.5 percent, or something like that. Well, I don't know what rate of economic growth we ought to have. It's a nice thing to have it. Economic growth can provide a lubricant in the conflicts between interests, because if everybody can get more it isn't quite as difficult to settle problems--if there's only a given sized pie to divide. This is a cumulative sort of thing. If we have economic growth we can live better and have greater potential for economic defense. There are great advantages in this.

On the other hand, growth, of course, is not the total objective that we have to keep in mind, either. How do you get economic growth? It's interesting, if you are connected with a business, to see how it happens in a particular situation. I think it happens in part because of the incentives that are provided for people, and partly because of the climate in which they work. I want to say something about this.

In order to do things better, this is doing something more efficiently, with fewer man hours, and less work, or to do something in the way of providing new products, new ways of accomplishing things. There we have to have new ideas, inventions, and research.

There's a rather interesting list in the economic report of the President this year. There are stated some of the things public policy can do to accelerate growth. This is probably overstated, but this is a good list, anyway. It's on page 60.

Public policy can accelerate growth and productivity, mainly, by stepping up the pace of our efforts to improve the education, health, occupational skills, motivations, and attitudes of the labor force. I think one of the reasons that Japan, for example, has had the highest rate of growth of any of the partly or substantially developed countries in the world is because of the educational level and also the attitudes of the labor force. They've had a simply astounding growth under the most adverse conditions as far as natural resources are concerned.

Second, by the building up of the stock of private producers' plant and equipment and improving its composition by age, type, and location.

By increasing the stock of physical capital, putting down roads, water systems, school buildings, and hospitals.

By improving the terms on which the economy has access to natural resources, whether through domestic production or imports.

By advancing the level of technology, a range from managerial and organizational competence to scientific and engineering understanding.

By raising the efficiency with which capital resources, technology, and labor are used.

By improving communications systems to accelerate the dissemination of information on technological, commercial, and employment opportunities.

I think the critical factors in growth are the educational level and the abilities of people. This goes for just ordinary workers and also for the managers. We have to have research and invention incentives. We have to have enough savings so that there are funds available for investment. We have to have inducements to invent and to invest.

I think the principal obstacles to growth are inertia, ignorance, and sometimes attempts by labor and by business to take a stand against innovation and progress because their particular positions might be damaged. I think of the two, that the labor situation, for example, is illustrated by the railroads. This is probably the more important situation. But there is something else here. There is something in the air. Let me read a couple paragraphs that I think illustrate this.

Among conditions conducive to progress, nothing is more important than the Zeitgeist. As Professor Boring says, there is something in the times that facilitates discovery and invention. Guty called it the Zeitgeist. Some people call it the climate of opinion or thought. Everyone thinks, speaks, and writes under its influence. It is an enormous body of fact, opinion, prejudice, and attitudes, the most plagiarized, unwritten scripture in existence.

The first principle in the psychodynamics of the history of thought is this unconscious, facilitating effect of the Zeitgeist on belief and

action. If the spirit of the times is expansive, dynamic, enterprising, inventive, pioneering, forward-looking, with high regard for innovation and effort, then we will have the basic setting for progress. I think we've had this in the United States for a long time, and this a very important sort of thing to maintain--this excitement in the air and this high regard for people who do contribute, in reality, to growth.

Let me say that, perhaps in response to questions, if you want a more detailed discussion of an item earlier, I will be glad to list some of the things that might be done in relation to the monopoly problem in labor, but I left it out of my discussion for reasons of time.

Let me conclude with a few observations on the role of management in the economy. I don't think there's a great deal to be said here. I think the principal responsibility of management is to run a business well. This is a mighty important thing, because, if businesses are run well, they will contribute enormously to economic growth. It's rather surprising. The greatest shortage in business is among the people to fill the top 50 jobs. We've probably got 250,000 people in our company, and that's small potatoes compared with what you are involved in. But the greatest problem is to get the 50 people to do the top jobs and to do them superbly well.

I would say that the most important thing that business management can do is to run its business well, is to achieve all technical progress that's possible, to develop new products, and to contribute to invention, discovery, and to compete as effectively as possible. A business man,

when he is asked what he has contributed, will often get up and say, "Well, look. I did something in the United Campaign, or I helped with a foundation or served on the board of a university." This is not his great contribution. The business man ought to stand up and say, "Look. I contributed one thousandth of one percent to an increase in the standard of living in this country by running my business well." This is the great contribution to economic progress that can be made by business men.

I think a business man is not only a business man but a citizen, and he wears this other hat. In this capacity I think he also has responsibility because he is a leader in the community. He ought to know something about the economic problems which concern our country, and he ought to be intelligent and not narrow-minded but statesmanlike in his view of them. So the hope is that we may get some leadership.

When business men have done this, I must say that their views have been listened to with considerable interest, and sometimes they have had some influence on the outcome of affairs.

Now, if I may, I'll terminate my formal remarks and I'll be very happy to deal with any questions.

Thank you.

COLONEL LEOCHA: Gentlemen, remember that Mr. Yntema's remarks are priveleged. Mr. Yntema is ready for your questions.

QUESTION: Sir, with the recent large profits of a lot of industries, labor is getting restive. Would you comment on industry's attitude toward salary increases or profit sharing?

MR. YNTEMA: Well, in the first place, the ratio of profits to activity is not so very high. Profits are higher than they have been, but the ratio of profits to total product is really not very high. It's relatively low by historical standards. You are talking about profit sharing for salaried people?

STUDENT: Yes, sir.

MR. YNTEMA: This takes a good many forms. In our own company, we have a bonus system, not for all salaried people but for people above a certain salary level. I think it contributes a great deal to interest and efforts to promote the accomplishments of the company. Some system like that is a very good sort of thing, especially if it is administered in such a way that those who contribute much get much, and you don't have an automatic system where you get such and such a percent of your salary, but where the management tries to determine the bonuses out of the profits so far as it can in terms of the extra contribution individuals make. That type of thing has been very successful.

QUESTION: Sir, with respect to labor, you talked about the pendulum having swung probably too far. Well, we created this labor monopoly power by government decree, the Wagner Act. We tried to temper it again

with the Taft-Hartley Act, combatant legislation. We say we don't want government interference in business, but how are we going to adjust this swing, or how are we going to cope with it?

MR. YNTEMA: As I say, we've been stewing about this for 20 years or so. I'll read you some suggestions. Let me say that we in the company got a group from one of the big universities to try to work on this. It's a very tough problem. It's not an easy one at all. I think some people have the idea that you might accomplish a great deal by doing a lot of little things, that you don't necessarily have to do something dramatic.

You asked the question: What can you do to limit to some extent but not to destroy entirely the degree of union power? Here is a list of things that one group drew up for discussion. I'm not saying that all of these ought to be done. Some of them are Pollyanish, but then, here they are:

First, the U. S. courts should be authorized to issue a restraining order or an injunction against unions in cases involving strikes in violation of a labor agreement. There have been some difficulties on that score. Unions can get it and employers can't.

Second, the right of employers, singly or collectively, to use the lock-out in the bargaining process should be recognized and should not be diluted by the NLRB and the courts. This is the opposite of the strike, you see. The employer has the right to lock-out--shut the door--just as the employees have the right to walk out.

Third, the intent of Congress to outlaw pressure by a union against a party with whom it has no dispute--that is secondary boycott--should not be circumvented by technicalities and the law should be clarified if the present language proves incapable of halting evasions.

Fourth, laws against violence should <sup>be</sup> more vigorously enforced in labor disputes by the Federal, State, and local authorities.

Fifth, the present Taft-Hartley Act provisions for government action in national emergency disputes should be retained and should not be supplemented as has been suggested, by making other instruments available to the President. I think this is important. That is, if either side thinks it is going to have government intervention, and if that side can benefit by it, it's going to drag the Government into it, just as sure as fate.

Sixth, the recent tendency for increasing government intervention in labor disputes, through fact-finding or the participation of high public officials or otherwise, except through mediation, should be halted.

Seventh, racial or other discriminatory barriers to union membership should be prohibited. The equal right of all qualified workers to join the union in their trade or industry should be recognized by law.

Eighth, the right of any worker to belong to the union that represents him should not be denied except for good cause.

Ninth, every individual should have the right to decide freely to belong or not to belong to a union. This is the right-to-work issue.

Tenth, legislation probably having gone as far as it effectively can in prescribing democratic procedures for unions, it is now the responsibility of union leaders and members to make democratic practices a fact.

Eleventh, determination of the form and content of collective bargaining should be left to the parties. This is a very important matter.

Twelfth, the legal requirement to bargain in good faith should be repealed since its effect is not to assure bargaining but to involve the NLRB in determining how bargaining should be conducted. They're nothing but subjects.

Thirteenth, in general the labor law should be examined with a view to eliminating detailed prescriptions of conduct that unnecessarily limit the freedom of the parties and invite recourse to the law as an harassing technique by one side or the other.

Fourteenth, the status of the NLRB should be raised by reducing the amount of detail with which it is concerned, raising the pay, and lengthening the tenure of members, and formally seeking the advice of labor, management, and legal community and academic experts before appointments are made.

Fifteenth, the Federal law has probably gone as far as it can practically toward preventing the misuse of union resources for political purposes, but there is still need for legislation to this end in most States. There is also need for greater vigilance on the part of union

members to see if the organizations which they support for collective bargaining and on-the-job representation are not devoted to political purposes.

These are some of the little things that could be done. In addition there are various kinds of suggestions about head-on attacks that limit this approach to the size of the union. This is an unsolved problem. A lot of people say you shouldn't do anything about it and the stronger unions are the better. Those who feel the contrary, don't quite know what to do.

QUESTION: Several previous speakers have suggested by implication that a number of our economic problems could be solved by a change or reduction in prices and by holding wages stable. Will you please speculate on the reaction of management if labor were to bargain for a price reduction in lieu of higher wages? What would be the economic effects if such a trend were started?

MR. YNTEMA: I think this implies a great deal. I think this would turn out to be bad because of the way it would work out. I think what we need is enough competition so that prices are under pressure. One business tries to compete with another and one industry with another. If wages don't go up too fast this is going to take care of itself. If you say, "Now, it becomes a bargaining matter, and unions are going to get in with management and set prices, and the unions are industry-wide," you are getting into a very dangerous sort of situation.

Suppose, for example, that you sat down in the automobile industry

and with an industry-union, and they sat down with the different companies and said, "Look, if your prices are such and such the wages will be such and such." I don't think that's the way to do things. I think when you get into that you get into all sorts of dangers with respect to collusion about prices.

This is one of the things that are wrong in many places. The unions in dealing with the employers do, in fact, set prices, and they don't always set them lower than they are but often higher than they are.

Look at your contractors in New York and some of the circumstances that have developed there. I think this could lead to more trouble than it would cure.

QUESTION: Sir, on the investment of private capital overseas, do you have any comments about whether it affects the balance of payments?

MR. YNTEMA: Yes. I haven't got the details here. Of course, we would be in a terrible fix if it weren't for previous investments overseas. The thing that is saving us now is that we do have an inflow from former investment. If we cut out investment overseas this would affect our future. It would give relief now and improve our current balance of payments problems as far as the short run is concerned, but in the long run it would mean that things would not be so good.

I think this is part of our view of the free world and how free it really is. Do you think that we ought to contain our investments within the United States for the most part and that this should be the

market at which we look? Or should we have regard for the whole free world and should capital flow where it is most productive in the whole free world? This is a question of philosophy. I have a slight preference myself for the whole free world as the market place, with as much freedom as possible.

Now, you may have to take some action with respect to the balance of payments situation temporarily, or maybe you have to discover some new way to make adjustments in the balance of payments mechanism.

The fact that we now have income from former investments overseas is helping us and in the future we are going to get the benefit of the current investment. If we hang on long enough this balance of payments thing will swing the other way again, because we'll have increasing remittances from overseas.

QUESTION: Sir, what do you feel is the Ford Company's responsibility with respect to the unemployment problem, both present and future?

MR. YNTEMA: I don't think that this is something that we can take responsibility for. I think our job is to run the Ford Motor Company just as efficiently as we can, to make it grow, insofar as we can expand demand for automobiles, we are going to, of course, expand employment. But I don't think it's our job to keep people working for us that we don't need.

I think it's our job as leaders of the Ford Motor Company to think about this problem and to be concerned about it. From my own point of

view I think the most important, single thing that could be done with respect to structural unemployment now is to raise the general level of employment in the country. There are just two obstacles to this. One is cost-push inflation and the other is the balance of payments. I think we ought to stew and worry about these problems until we find some better way of dealing with them. These are two unsolved problems in the economy, and as sure as fate they are going to stand in the way of people getting jobs if we don't find out how to cope with them.

QUESTION: In the current debate on foreign aid it has been suggested that business could be used in this field far more than in the past. Do you agree that business has a viewpoint, and if so are they prepared to achieve at least part of the objective?

MR. YNTEMA: What do you mean by "business can be used"? Do you mean that business men can take government jobs?

STUDENT: I presume that what they mean is that business should invest or move in in lieu of government.

MR. YNTEMA: Well, I think that this does contribute importantly. Speaking of our own operation, we've got a manufacturing operation in Brazil, in Mexico, and in Argentina. And I must say we are having all kinds of problems, because you don't have any kind of fiscal and economic stability in these countries, not to mention political stability. I think the problem is theoretically quite a simple one. If you had political stability and reasonable price stability in these countries, there would be no problem at all. U. S. private capital would flow in

in very large amounts.

The fundamental problem of these countries is political instability and monetary instability. On the other hand, what are you going to do? Are you going to ask a private company to put a large investment in a country where there is danger of serious inflation, effective profits taxes above 100 percent, possibilities of expropriation? You can cure this to some extent by guarantees and this is being done. But the real problem lies within these countries, and I have no doubt that you would find a great flow of capital from the United States into other countries if you had these two ingredients present--political stability and monetary stability.

QUESTION: Sir, this question has to do with make-work rules, feather-bedding, and the associated trends toward the recapture of management rights. Will you please comment on this with regard to your forthcoming negotiations?

MR. YNTEMA: No, I would not. This is an inappropriate sort of thing to discuss in public.

QUESTION: Sir, you mentioned the attitude of the work force as being a major factor in Japan's rapid growth. I wonder if you would comment on the effect of unionization on the attitude of the labor force in this country.

MR. YNTEMA: Well, I don't know enough about the different industries and situations to comment at great length. I think you will find this quite different in different industries. I think by and large the

union people in our company work pretty hard. I don't mean that they overwork. I think you do have standards so that you don't get differentiation in performance, but by and large I think that they turn in a decent day's work. But this is the result of persistent efforts by business to maintain this sort of situation. If the business doesn't do its job in this respect, or if there are peculiar circumstances present, there's hazard of government interference. You can get the kind of thing that is happening in the railroads. This has even happened in some companies in our industry, and they really had a tough time to fight out of it.

If this goes wrong it may be in large part the responsibility of management, or it may be the peculiar circumstances and the possibilities of public intervention, or something else. I'm not an expert at this. I can only tell you a little bit of what I have seen.

QUESTION: In recent wage negotiations productivity has become a more important factor in labor's mind that they wish to share in. Inasmuch as productivity arrives from capital investment, do you as a manager, when you have a decision to make as to whether or not you will invest capital for increased productivity, think about this? In other words, do you think, "What the use? It will only go to labor, anyhow."?

MR. YNTEMA: No, you see, that isn't the way this works out. Usually your decisions on productivity are made in particular situations, to improve a particular operation. Unless the labor group tries to do this by featherbedding to keep their jobs, which is another situation,

the general wage negotiations aren't going to have a major effect upon a particular decision to improve.

There is all this talk about what productivity is. Productivity in large part is a result of the efforts of management. But sometimes it is a result of the improved quality of the work force, too. But in large part it is a result of the efforts of management. Sometimes it involves some capital.

But I would say that this does not keep us from making a particular step forward in productivity. It's not important in that respect. It would be if they were featherbedding. I'll make that clear. If in a particular case you are going to give up your gain, you see, by extra manning. Then of course it will be important.

QUESTION: Doctor, the Department of Labor Statistics in the period of 1957 to 1962 indicated that this was a period of economic growth. At the same time, the total numbers of people employed in manufacture, transportation, and construction declined. This has led certain groups to conclude that our present limited system of free enterprise can't cope with this and that increased government intervention or measures must be required to solve the future employment problem. What is your view?

MR. YNTEMA: Of course, the important thing is not the employment in particular industries but the overall level of employment and unemployment. It is true that over this period after the war we have had an increasing level of unemployment.

My own personal view is that some of this trouble is due to the interference of government, and if you have more interference you may make it worse. I think the two critical problems in this area are the balance of payments problem that keeps us from using our monetary and fiscal policy for full expansion, and the other is the cost-push inflation.

If there is enough competition among businesses and enough competition among workers for jobs, when there are excess resources and excess capacity, you are not going to find prices going up. If that doesn't happen, as long as you've got idle resources on a large scale, you can draw these people into employment.

I think these are the two critical problems--that we must have enough competition, and either we are going to take our lumps with the balance of payments or we are going to find some better way to deal with it.

QUESTION: Sir, would you give us your views on the current proposed tax legislation and the probable results if that legislation is passed?

MR. YNTEMA: I am no expert. I don't know what is going to happen. You know as well as I do. My own view on the tax legislation is this: I am for a tax reduction. I don't know that this is necessarily the ideal time for it, but I think that any time is probably a good time. The most important reason why I am for it is because I don't see any other possible way to reduce the pressure for increased expenditures.

I have heard more talk about economy in government this year than I've heard for 20 years. Maybe it's just talk, but I think this talk produces also some results and more restraint. This is the real point. I think government has grown very big and in some cases very wasteful, and that we do need strong pressures to keep the budgets down. I know this hurts. Whenever we have to do it it hurts in business, when you are trying to run an activity. It hurts in the Government when you are trying to run it.

But this is only reasonable. I am personally for the tax reduction primarily because I think it will put a pressure on government expenditures. Secondly, I am sure it will lead to increased demand and a higher level of employment. It is very interesting to see to what extent you also produce cost-push inflation and to what extent you ease or increase your difficulties in the balance of payments area.

I am sure that if we have a tax cut we'll have an increased demand and a higher level of employment. We'll have better incentives for production and investment. I think on balance it is a very desirable sort of step. We may learn something from it, too, that we don't know now.

I am on balance in favor of it, even though it increases the deficit. After all, remember this, that the take of the Government, if you don't increase expenditures in the ordinary budget, if you have 3.5 percent growth, will rise at the rate of \$3.5 or \$4 billion a year. I mean, the

automatic increase in the revenues of the Federal Government just as the result of normal growth will raise the receipts of the Government in the order of \$3 or \$4 billion a year. So, if you can just hold still and not expand your government expenditures, you can take care of this deficit situation in the course of a couple years.

You get also the benefit of a higher level of employment and production by bringing in vital resources. This verges on other difficult problems and the question of the balance of savings and investment, too, that are not so easy to deal with.

QUESTION: Sir, with the population explosion and the increased automation we are in a situation where the gross national product has to rise at a large rate in order to stay level with the employment situation. Who do you think can fix this? Can it be fixed by union, labor, government, or business, or by all in common?

MR. YNTEMA: You've got two problems. One is the population explosion itself. I expect if it is going to be fixed, it is going to be fixed by a birth control bill. You have conflicting interests here. It used to be that you wanted a big population in order to have military might.

Now, the growth of population does mean that the existing capital is going to be spread over a larger number of workers. We have seen its effects now in education. The real problem in higher education is also the population growth. And this is diluting the quality of education. The capital we have in education is not adequate to take care of it. Here we are having, I think, a decrease in real national welfare

and income because of the pressure of population on our educational facilities, which are not easily expansible. Partly this is because they are not in the private sector. That's a whole story in itself. I think we are rather stupid in the way we finance our higher education.

But the other part of the question is how you are going to draw people into employment. I must give to that the answer that I gave before. I think you draw people into employment by having a demand for the products that are produced and having entrepreneurs who are going to organize businesses and expand businesses to provide these products.

You could very well have sat back 50 years ago and looked 50 years ahead and said, "How in the name of sense are we ever going to find jobs for all these people and take care of this enormous potential productivity? Who is going to buy all this?" The people are going to buy it. And the businesses are going to want to invest. This is not any real problem.

People haven't got all the automobiles they want. They don't want one automobile, they want two, and they want three, and they want four automobiles. They want not just one TV but they want three or four TV's. They want bigger houses. They want better clothes. They want all these things. They want to travel. Travel per capita, as I said, has gone up twelve fold in the last 50 years. There are almost unlimited wants that people have. That's not really a problem.

The problems, I think, lie here. We know how to increase the demand

for goods. You can put money into the system through monetary or fiscal policy if you need to. We ought to have an expanding money supply as a potential for growth. You can increase the demand for goods. Look at what happened almost overnight in the early 1940's, when money started to flow out for defense purposes. It is no trick to increase demand. It can be done badly or it can be done well, but it can be done.

What you do need, however, is when you do increase demand through fiscal and monetary means to have sufficient competition in the system so that the costs don't run away and so that prices are kept down by effective competition. If you have this and don't have the balance of payments specter, you can solve this problem. This is not too difficult.

The mobility in this economy is just tremendous. You remember back in 1944 and 1945 the worries that we had about what would happen when we stopped spending all these billions for war. A lot of people were badly scared. Just remember, we came out of the thirties during a period when there was mass unemployment such as we don't have today, a tremendous mass of unemployment, and people were really worried that we would go back to the thirties. When we came out of the war there was a lot of money in the system. People had more money than they could spend, and we started to spend it. People were drawn into employment, and of course you got inflation, because we tried to spend it too rapidly.

This is not a problem of resources. The more resources we have the more we can use. This is a problem of fiscal and monetary policy, and the two problems that are deadly serious are the cost-push inflation and

the balance of payments. You lick those two and the problem will largely evaporate.

QUESTION: Sir, what is your attitude with regard to the investment tax credit as a means of improving our balance of payments position and increasing the number of job offers in the United States?

MR. YNTEMA: This makes business investment more attractive. Business investment in relation to gross national product has been quite low, of course, in recent years. This increases the attractiveness of it, exactly how much I can't tell you. This I think is a good thing, by and large. This is not a very good answer to your question, but it is as far as I can go.

QUESTION: With regard to international trade, sir, while exports have increased rather dramatically since World War II imports have increased more rapidly. To what extent do you believe American industry can help reverse this trend by more deliberately serving foreign markets? Do you believe that we can be competitive or that we are competitive both quality-wise and otherwise?

MR. YNTEMA: I can't give one answer to that question. The fact is that we do export more goods than we import. I mean, on goods we have a favorable balance of trade, so that we do send out more products than we buy. There has been, of course, quite a marked increase in the imports of manufactured goods. This is one trend that is of some concern. I am sure there must be cases where American business men are not fully cognizant of foreign markets and aren't organized to take advantage of

them. I think by and large the facilities are improving, and foreign purchasing agents, too. The trouble/<sup>is</sup> that the American purchasing agents are learning to buy from abroad just as well as the American sales departments are learning to sell abroad. Both things are happening. Where this will come out in the long run is going to depend on, of course, the total costs of production and the efficiency of the agencies in selling and buying abroad.

I am sure that more could be done, but this takes time and takes resources, and it's not always easy to do. We probably can improve this. But there is also the other side. You can also buy abroad more effectively. So you have these two conflicting sorts of things. Where we'll come out, I don't know.

This, in my judgment, is one of our major problems. I don't think we've got it licked. Please don't quote me as saying that I think that the dollar is going to be devalued. That's not what I am saying at all. I am just saying that this is an important technical problem. It's constraining our action and it's something to which we ought to give thought in the short run, and also there ought to be people who are dreaming about this, and thinking how we can do it differently, and ways of doing it better, forgetting all the shibboleths and all the myths, and taking a look at realities.

There is some literature developing on this. Maybe this is all haywire. I don't know. But at least this is one of the issues that requires very careful consideration of talent. But I don't see any

devaluation in the immediate future. There may be pressures. The thing may solve itself. There are forces at work now, you know, that are tending to deal with it, because wages are going up very rapidly in many of these foreign countries. What you are finding is inflationary pressure developing there. This will tend to get us off the hook.

How this will all evolve, you have to have a wiser man than I to say.

COLONEL LEOCHA: Mr. Yntema, on behalf of the Commandant and the entire student body, thank you very much for an illuminating presentation and discussion.

MR. YNTEMA: Thank you.