

The Economic Club of New York

Can the United States Avoid Socialism?

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Tonight I want to talk about how America can avoid socialism. But first of all, I think we ought to know what we mean when we say socialism. It means different things to different people.

Do we mean the British brand of socialism? Britain's socialism is like the famous British drink of 'arf and 'arf; it's like the boy in the nursery rhyme named My Son John, with one shoe off and one shoe on. It is partial socialism.

Do we mean total socialism as the Russians have it? Where the state is the sole owner of the means of production and distribution; the only employer and the solitary boss? Where the worker is chained to his job at a wage rate fixed by the state?

Or do we mean what some of my ultra-conservative friends mean when they say: "Look around you here at home. We've got socialism now." They think public power development, public housing and social security add up to socialism. I don't. Yet here we are at the all-time steeple top of industrial prosperity under capitalism, and we're talking about how to avoid socialism.

Why? I'll suggest two reasons:

The first reason is that capitalism is dead in most of the world today, and socialism is on the march. We wonder if we can survive and prosper as a big but lonesome island of capitalism, washed on every shore by the rushing seas of socialism. We know that our kind of capitalism is vastly different from the old-world brand which was rigged to benefit the few and not the many. But still we wonder if we can escape the trend.

The second reason is this: we're afraid that socialism might engulf us if we had another deep depression on the shattering scale of the unhappy 1940s. It is my conviction that the American people are almost as afraid of another depression as they are of another war. And I am convinced that the depression of the 1930s had an impact on our thinking as lasting and as deep as any other event in our history.

That depression colored the thinking of three generations. It colored the thinking of the generation on the way down; the thinking of the generation in its prime, and the thinking of youth on its way up. We are tormented by the memory of its ruthlessness. It was merciless in sparing neither age nor youth. We remember that the prudent and the saving were no more immune to its ravages than the improvident and shiftless and the memory sear our souls. We remember the hopeless trudge of jobless feet, and the recollection is an opened, painful scar. The economic devastation of the 1930s not only colored our thinking for many years to come, but it brought about a great transformation in our whole economy.

I like to tell the Jeremiahs of American capitalism that we were closer to socialism in the 1930s than we are today. The world trend toward socialism was getting up its steam right then.

Socialism as an economic gospel found the world depression an excellent practice run for the speedway of today. It was touch and go with us whether we'd go socialistic. We almost divorced capitalism then and there and wedded socialism.

Why didn't we? I believe it was because we began to use the power and the resources of our government to correct economic abuses in our system and to relieve economic distress. That was a new and greatly expanded role for our government. Up to that point in our highly individualistic economy government had been little more than a referee for us. We had used government mainly to see that the "rules of the game" were fairly and equitably enforced.

Instead of ditching capitalism, we insured its continuity and preserved our private ownership system and our private freedoms by evolving what I like to call an insurance economy. We insured against old-age destitution; we insured bank deposits; we insured the unemployed; we insured a minimum wage; we insured a more stable price for farm products; we insured home mortgages through government. And finally, we insured ourselves with the employment Act of 1946 to warn us against approaching economic thunderheads so we can take preventive action in advance.

All these acts, to a greater or less degree, buttress our purchasing power. So, in practical effect, we insured the manufacturer, the retailer, and the professional man of at least a certain market for his goods and services.

This was an epoch making decision. We decided then and there we didn't want socialism. We wanted then, as we want now, to keep the means of production and the distribution of goods and services in the hands of private owners. Business, labor, agriculture and the consumer were then, as now, overwhelmingly alike in that desire.

We made that decision because private ownership had proved beyond question for us to be the best way to get production. Every other country today struggles with the problem of how to produce. Our problem was to distribute more equitably the abundance we could produce. The decision fitted into the American scheme whose guiding principles are freedom and movement and freedom opportunity. After a century and three quarters of those freedoms, they are bred in our bones. They are not something to be tossed aside frivolously or heedlessly.

Just as the American people are determined to keep their freedoms, they are equally determined that all our public and private resources must be administered to prevent another deep depression. They aren't frightened anymore when someone calls anti-depression legislation "socialism." They know that social legislation isn't socialism.

I am reminded of the man in the 1930s who was about to lose his home and was bailed out by the home owners Loan Corporation. A conservative thinker himself, he was baited by a neighbor who condemned the HOLC as “socialistic.” Well, maybe it is,” he said, “but if this is socialism, then I want more of it.”

The insurance economy approach offers Americans their best chance for three basic things they want -- security, plenty, and freedom. I recognize, of course, that there is some conflict among these three aspirations; if we overemphasize security, we may sacrifice the other two. But here we should depend upon the good sense of the American people to keep the delicate balance.

I recognize, too, that the insurance economy approach will be resisted. Resistance comes from believers in complete laissez faire on the right and from “total planners” on the left. The laissez faire extremists believe depressions are inevitable. They say nothing can be done about them. The “total planners” offer a sure fire remedy for depressions --total planning. It is time we exploded the myth that total planning prevents depressions. Look at Russia -- the great exponent of total planning. But Russia has depressions, Russian style.

On my recent trip to Russia, I saw for myself how business crises develop in the Soviet Union. When I told Molotov that Russia has its business cycles, its ups and downs, he didn't deny it. He responded obliquely by saying: “But we don't have unemployment.” That's always the Russian answer -- that if you don't have unemployment, you can't have a depression. But you can. Let's

see about that -- A depression means “hard times” for the individual, whether it’s in Russia or in America or anywhere else.

In America, depressions have generally been caused by over-production and under-purchasing power and by decline in new capital investment in plant and equipment.

In the Soviet, it’s just the opposite. Russia’s depressions are caused by under-production, over-purchasing power and excessive investments in plant and equipment. This arbitrary concentration on capital investments in heavy industry and for machine tools of all kinds results in a paucity of consumer goods. It is a case of the powers-that-be in the Kremlin insisting on making trucks, for example, while the Russian people desperately need teakettles and pots and pans.

So I say to the total planners their argument that the state should do everything is as foolish as the argument that the state should do nothing.

I should like to see us project into our new role as a world leader the techniques of our insurance economy which we are using to strengthen the home front. Everyone agrees there’s an urgent, pressing need for a world-wide program of agricultural and industrial development. More food--more clothing--more shelter-- those are the things which people everywhere are crying for.

There's an urgent, pressing need to expand and stimulate world trade and commerce--for a greater exchange of goods and services among the world's peoples.

All of us will benefit immensely as living standards are improved. The pith of America's role as a constructive world leader is to help create a pulsing flow of trade among the nations, to clean out the stagnant economic swamps that breed poverty and distress, chaos and conflict.

How best can we gain these objectives? Our main post-war reliance has been on ECA. We have given away billions of our substance in a conscious program of world recovery and reconstruction. It has been a necessary program, but we can't pursue this course forever. We need to ask ourselves this question now: "What's going to happen after ECA completes its mission in 1952?"

We can't wait until then to think about it. We've got to begin to think about it now. We've got to begin now to think about how to get the job of world economic recovery off the backs of the American taxpayers. We ought to get moving at once to put this job where it belongs and where it can best be done--into the hands of American private enterprisers. Government-to-government loans and grants can never equal the accomplishments of a full use of private venture capital.

In partnership with the capital and the resources and the manpower of other countries, American private enterprisers could carry forward this program of world economic development as a

mutually profitable business venture. But private capital isn't going abroad today in any substantial amount, and there are good reason why it isn't. It's afraid to. As a matter of fact, it has three great fears. Let's examine these fears:

The first great fear is the fear of seizure without compensation through expropriation or nationalization.

The second great fear is the fear that it can't change its earnings in liras or pesos or pounds into dollars and bring the dollars back home.

The third great fear is the fear of restrictive foreign laws on management.

These are reasonable fears. They are justified fears. Private capital isn't going abroad unless it knows it can earn money doing it and bring that money back in our own currency. In view of these fears, what can we do to stimulate a surging flow of American private capital abroad to help industrialize the world? I suggest a three-point program:

One: I propose that we establish a government fund--on a mutual insurance basis--to guarantee American investors against seizure of their properties by expropriation or nationalization, but not of course, from normal business risks. This government setup should be shaped along the lines of the Federal Housing Administration. The pattern of the FHA has proved a good one. It insures

private bank loans for home purchases. A small part of the interest charges goes into a mutual insurance fund to underwrite loss. The insurance fund I suggest for foreign investment would have a wider scope. The private investor could borrow from his bank and have the loan insured, but the man who put up his own money could have it insured on the same basis.

Two: I propose that our government guarantee the convertibility into American dollars of money earned abroad. We must make it possible to bring home the fruits of the seed money.

Three: I propose that we overcome the managerial fear in two ways. In the first place, our diplomats must make it clear to foreign governments and nationals that if they want American capital investment, they must make it truly welcome. It is not asking too much to expect them to create fair conditions which will enable management to get the job done.

And next, there is much that American capital itself can do to improve its welcome around the world. Most importantly, American capital can enter into partnership with the nationals of other lands. This is the absolute opposite of “colonial imperialism” and of the exploitative practices which earned such a bad name in the economic era on which the curtain is now descending.

Partnership capitalism is the 20th century pattern of world development. It has already been successful where it has been tried by enterprising American firms. Latin America is the prime

example. Such partnership become, in fact “home-owned” and “local” companies. They are reasonably safe from discrimination on any count--less likely to be seized with compensation.

If my program sounds like a stupendous undertaking, then I'll say that of course it is. But it shouldn't frighten us. The stake is also stupendous. It is peace.

For us, this is a time of great transition. We can expect day in and day out to be confronted with new problems and conditions at home and abroad--without parallel or precedent in our past.

As we move into this new period, we in business must never forget above all else that in a democracy no system is sacred and unchanging. The political power of the people includes the power to change their economic way of life. That is true in America; it is true today around the world, where newly powerful masses are everywhere in the political--and economic--drivers' seats.

It is time also for leadership by men who are fully aware that a great transition is upon us. I think that men in business can help provide this leadership. When I ask businessmen to assume a new kind of leadership, do I mean that they must accept without question every proposal for economic adventures either here or abroad? I must certainly do not. Do I mean that they must convert themselves to the weather-cock thinking of those who believe every suggested change is immediately good because it's something new? Emphatically, I don't. What I mean is this: they

can recognize the need of change when change is needed and advance constructive answers. That is the enlightened way for American business leaders today.

I like the American system. I am committed to it. It's the best I've seen, and I've seen them all. There is plenty of room in it for improvement, and that's the job for us businessmen. It's a continuing job, a never ending job. But if we work at it as effectively as we work for production and quality products, we'll spread the benefits of our system, spread the ownership and broaden the confidence of all our people in it. And the threat of socialism in American will be further and further removed.