

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Economic Research and the Development of Economic Science and Public Policy

Volume Author/Editor: NBER

Volume Publisher: NBER

Volume ISBN: 0-87014-115-5

Volume URL: <http://www.nber.org/books/unkn46-1>

Publication Date: June 1946

Chapter Title: Economic Facts and Economic Policy

Chapter Author: Lewis W. Douglas

Chapter URL: <http://www.nber.org/chapters/c9708>

Chapter pages in book: (p. 101 - 110)

Economic Facts and Economic Policy

LEWIS W. DOUGLAS

*President,
Mutual Life Insurance Company of New York*

IN HIS report covering the twenty-five year life span of the National Bureau (Annual Report, 1945), Wesley Mitchell concludes his discussion of the relative merits of *ad hoc* economic investigation into practical problems and orderly inquiries into the basic characteristics of the economic system with the following engaging sentence. "In the long run systematic research into fundamentals has greater practical value than piecemeal research."

Immediate and pressing questions necessarily absorb the attention of the man of action—the butcher, the baker, the candlestick maker, the public official. The demand for facts concerning them is accordingly great and sometimes overwhelming. While it is essential that they be furnished, they often lead to doubtful conclusions and questionable actions. For a set of facts, however cogent and unquestionable, about any specific economic question may lose part of its full significance when the specific question is lifted, as it were, out of its broad fundamental context.

The strong emotions engendered by a deep depression sandwiched in between two World Wars and a sweeping revolution, the waning faith, the bitter prejudices arising out of the ruins of the world order that characterized the nineteenth century make it the more necessary to discover the essential facts about the basic features of the economic system as it was, in contrast with the politico economic system that is now taking form and shape.

For a careful analysis of experience, meticulous inquiry into the nature of things, uncensored industrious investigation and responsible determination, broad dissemination and—what is

equally important—discriminating interpretation of fact, are among, if indeed they are not, the most powerful pillars of a free society.

The more complicated and sensitive the social and economic system becomes, the more necessary it is that there be carried on impartial inquiry into the facts—the more interrelated and delicately tuned it is, the more essential that all the facts that bear on any issue be identified, assembled and distributed.

When, in times like the present, the intellectual and emotional atmosphere becomes charged with prejudice and bitterness there sometimes seems to be little hope of successfully recapturing that respect for reason and that capacity for individual self-restraint that are the foundations of our social order. But we must believe that tedious and faithful pursuit of the truth will ultimately at long last take their toll of ignorance and prejudice and deceit. The only alternative to this belief is unconditional surrender to outward discipline and organized violence as the arbiters of human affairs. This is an alternative to which we will not *knowingly* or *willingly* submit, for it is repugnant to our conception of the dignity and moral responsibility of the individual.

I confess to an occasional spell of despair when I observe the direction in which we persistently move without knowing what the facts are or, what is worse, when I see us charting our course in open and stubborn defiance of what appears to be convincing evidence.

Let me make myself more explicit.

Throughout Europe there is a vast body of clinical economic and political material accumulated over more than the span of a quarter of a century—a long enough period of time—a sufficiently protracted experience to provide the basis for valid conclusions. It embraces monetary and fiscal policy. It includes the phenomena characteristic of that order of affairs in which the dicta of the State become the substitute for the market place as the adjudicator and governor of economic affairs. It comprehends what we call social security—in all its forms. It deals with socialized medicine. It

Economic Facts and Economic Policy

covers the trade union movement as it developed in certain countries. There is in this body of clinical material a store of facts concerning the effects of each one of these individually, and all collectively, on costs, prices, exports, imports, foreign exchange, distribution of income, productivity and unemployment.

Here at home there is a wealth of material collected from a shorter experience, but withal long enough to be significant, covering much the same related subjects. Yet we are not disposed to examine this material—to review critically all the facts which this stretch of experience can disclose—the consequences, the compensations, and the exactions which these policies have produced, before plunging headlong into them ourselves.

Let me put the case in somewhat different terms: the unemployment series in the United States is one of the most interesting set of facts that has come to my attention. It shows a progressive tendency toward a reduction of the unemployed and an uninterrupted tendency toward full employment throughout the entire first thirty years of this century—excepting for short periods of cyclical distress very quickly abated and relieved. Prior to the 'thirties the worst period was in 1921 when unemployment rose to 11.2 percent of the employables. But within a span of 18 to 24 months it had completely disappeared. Thereafter, with few minor deviations, unemployment simply did not exist in this country until 1930. It rose in 1931, again in 1932, again in 1933, to 23.4 percent and never thereafter did it fall, not even in the boom year of 1936 and early 1937, to the level of 1921—until the war came with its high level of industrial activity and 10 to 14 million young men were lifted out of civilian life into the armed forces. Stated broadly, suddenly *without any warning whatsoever*, without the slightest evidence of an impending change—contradicting with startling sharpness our entire experience and the trend of a third of a century as though our future had been by some great cleaver separated from our past—unemployment on a scale never before known in accurately recorded American history appeared not as a passing cyclical characteristic but as a

permanent secular phenomenon in American life. Much the same experience was had in Britain except that 1922 was the year. This is a statement of fact which is, I believe, incontestable. Why this *sudden* amazing break with past experience? What occurred to produce it? What happened within the orbit of monetary and fiscal policy, of labor and wage policy, of taxation? *What are the facts? What are all the facts?*

Let me put another question. More than a century ago Richard Cobden, John Bright, and their apostles, under the influence of Adam Smith, became the leaders in a crusade for the reform, indeed the elimination, of the various restrictions on and interferences with the flow of international commerce that had characterized the Mercantile Period on which Heckscher has written so authoritatively. They argued persuasively and successfully that, at least, the civilized world should be organized around the free market place—and that, among other consequences, if it were so organized the significance of nationalism and national frontiers would be reduced and one of the principal causes of wars would be eradicated. The nineteenth century, disturbed though it occasionally was by local and minor wars, was in retrospect what Justice Holmes called “A brief period of calm snatched from the tempestuous untamed streaming of the world.”

That the argument of Cobden and Bright was confirmed by the high court of subsequent history Lord Keynes attests to in his *Economic Consequences of the Peace*. His description of the world that was is so accurate and so elegant that I beg leave to remind you of his language:

“What an extraordinary episode in the economic progress of man that age was which came to an end in August, 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with their lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost, and with the least trouble, conveniences, comforts, and amenities

Economic Facts and Economic Policy

beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprise of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure, forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could dispatch his servant to the neighboring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice.

. . . The delicate organization by which these peoples lived depended partly on factors internal to the system.

The interference of frontiers and of tariffs was reduced to a minimum, and not far short of three hundred millions of people lived within the three Empires of Russia, Germany, and Austria-

Hungary. The various currencies, which were all maintained on a stable basis in relation to gold and to one another, facilitated the easy flow of capital and of trade to an extent the full value of which we only realize now, when we are deprived of its advantages. Over this great area there was an almost absolute security of property and of person."

Have the fundamental characteristics of society unavoidably changed so violently as to invalidate precisely the policies which, among other things, produced one of the rare periods of calm and plenty in the history of mankind? What are the facts in the case?

If I overburden the need for facts, it is not because I am indifferent to the need for interpreting them. For while it is essential to know the evidence it is equally essential to know what it means. If I press the case for facts, it is not because I am unmindful of the importance of improved technical procedures. But these are, I submit, mere instruments—the machinery of research.

If I urge the need for facts—not derived from indiscriminate inquiry and casual investigation—not disorderly and scattered observation of economic phenomena—it is because I believe with Bacon that, "Knowledge is power", with Plato that, "The true and the good are the same".

Only the most obtuse person, or one absorbed in the contemplation of ephemeral abstractions in an atmosphere of a monastic seclusion can fail to observe that there are abroad in the world two wholly incompatible codes of human behavior—the one holding that the individual is and must be the fountainhead of progress, the central point in the social order; the other that the State is the master of man's destiny; the first representing the views of free men in a free society; the second expressing the views of those who believe that men are not capable of enjoying freedom.

The struggle between the two becomes increasingly bitter and the issue will be won or lost in time not alone because of a particular foreign policy to which we become committed, but rather because we prove to the world that the system in which we be-

Economic Facts and Economic Policy

lieve, however impaired we may have made it, will produce a fuller life—morally, politically, and materially—than the one against which ours is now thrown into sharp conflict.

This we may the better do—in this we may the more certainly succeed if we but have the knowledge on which to mold our behavior.

At times disappointments will dampen our enthusiasm—produce discouragements. The road is long, the load is heavy, the way is strewn with impediments. But over long periods of time the power of fact, and the weight of wise interpretation must push us on to our destination, and the light that is shed by knowledge accumulated tediously, accurately, and systematically, must ultimately guide us to our destination.

