the eyes of the electorate; and the side effect is then not only given no consideration but may be overlooked or regarded with a skeptical aloofness if it comes to public attention. The competitive incapacity or handicap imposed on industry may therefore not be recognized and industry may indeed even be blamed for inefficiency and slack management rather than being regarded as entitled to compensatory consideration. The public is so far removed from the forces released by legislative enactments for which it is responsible, and the effects are so indirect, that it is possible to disown the consequences or to be unaware of them.

The unenviable plight of our merchant marine as a victim of national legislative fall-out, illustrates two points worthy of attention. (1) The higher American costs would have destroyed our merchant marine if no compensating support had been granted. The market forces would have operated according to theory had they been given a free hand. As in a thousand other instances within the domestic economy this was not allowed. (2) The subsidy did prevent the competitive market forces from operating as far as the subsidy extended, but that was all. Beyond the limits of the subsidy no ships could be built or operated, showing clearly how far the market forces would have gone had there been no subsidy. Not one ton of American flag shipping could make its way competitively without subsidy. With cost burdens double those of competitors, the reason is clear enough.

THE COAL INDUSTRY

The experience of the coal industry illustrated a different aspect of competitive forces but the results so dramatically show the only effective means of materially reducing costs that the experience not only bears repeating; it should be trumpeted to all who have occasion to prescribe for our economy.

A few years after the close of World War II the coal industry fell on evil days. It was beset by relentless competitive forces from substitute fuels from both domestic and foreign sources. At the cost level of our coal production the industry was faced with destruction. Oil and gas and imported residual fuel oil were available at prices that were beyond the reach of the coal operators.

The coal industry found a way out without subsidization. an alternative that gives what should be an unforgettable lesson in the economics of cost-reduction. It saw the possibility of using mammoth and costly coal digging machinery and, not counting the cost in the jobs of coal miners, introduced mechanization as far as the technology permitted. American coal became competitive not only with oil and gas on the domestic scene but in foreign countries. It could undersell English and European mines in their home markets. England allowed no imports. West Germany imposed a restrictive import quota. However, that is another question.

The necessary reduction in the cost of coal was effected in the only way possible. The cost was paid in terms of miner-displacement, and it was excruciatingly high indeed. The number of coal miners was cut from 480,000 to 142,000 in about 15 years (1950–1965). This was a shrinkage of 340,000 jobs, or 70%! While the drastic steps thus taken saved the coal industry it gave to the nation the poverty and distress known as Appalachia. Such may be the cost of the efficiency that is constantly urged upon domestic industry by economists who are so blinded by the classical rules that reality fades from their grasp! We are much more productive than foreign miners but their wages may be so much lower than ours that in order to compete with them we must displace a large share of our work force. If we are twice as productive but their wages are only a third or a fourth or a fifth of ours, the remedy is obvious.

Theory holds that reduced costs will lead to greater consumption and that this in turn will lead to greater production and higher employment. It is, however, erroneous to conclude that reduced costs will always lead to a happily expanding consumption that will increase employment. It will not do so when the demand for the product is inelastic, for example. If costs are reduced at the expense of employment the displaced workers must then look elsewhere for employment. It also will not necessarily do so when costs are reduced in order to meet competition that has already invaded the market. As in the coal industry, the previous level of production may be recouped or nearly so; but as it was, the miners were not rehired. They went on the poverty and relief rolls for a long period, and the end is not yet.

Here again ancient theory broke on the rocks of reality. Import competition is often compared with the upset caused by mechanization, and should therefore be met in the same fashion; but the generalization overlooks too much. If the demand for the product is inelastic as in essential goods, of which there are many, the consumer demand will not expand in response to the lower-priced