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"The Road to Serfdom" in Cartoons
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American Affairs

The Economic Record

GARET GARRETT, *Editor*

APRIL, 1945

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VOL. VII, NO. 2

Review and Comment

By the Editor

The New Book of Rules

TO comprehend the Bretton Woods plan as a whole, one must seize the ideas that governed the writing of it, and to do this one must imagine oneself, as Mr. Morgenthau says, flying out of the darkness of the past toward that world of the future which is going to have a new finance and a new book of rules—such ideas as:

(1) that the old laws of sound finance are anti-social;

(2) that the economy of the world can be planned and managed by an international board acting as a supreme intelligence;

(3) that creditor nations are morally responsible for the welfare of debtor nations;

(4) that human well-being may be increased without end by deficit spending and controlled inflation on a global scale;

(5) that solvency, regarded as a financial imperative, is a nursery bugbear tending to defeat happiness;

(6) that money is anything you say it is; and,

(7) that the sum of all disaster is deflation, wherefore controlled inflation must proceed by a ratchet principle, and the only true stability is that of the infinite spiral.

This supreme international board will have the power to fix world prices, to equalize opportunities among nations, to penalize the rich, low-cost, surplus nations in favor of poor, high-cost, deficit nations; but there is one power notably absent. That is the power to make any nation balance its budget.

Economic Heaven or Bust

AS time came for Congress to act upon the question of creating an international money power, according to the Bretton Woods proposals, the volume of supporting propaganda increased with crescendo effect. The most notable fact about it was its perfect orchestration, as if it were one symphonic composition, with parts arranged for the

brass winds of the communists, the woodwinds of the liberals, and the drums and percussion instruments of the CIO. The strings of course were in the hands of the government. Toward the climax came fanfares, played by the CIO on the machine it constructed during the 1944 campaign for the purpose of producing formidable political sounds. All CIO unions were urged to load the telegraph with messages to members of Congress demanding that the plan be enacted into law at once with no amendment. The great librettist was Mr. Morgenthau, Secretary of the Treasury, saying: "Our generation has been given a new vision of the world. It is as though we were seeing the earth whole for the first time"—or it was as though you were in a plane flying east and "were in darkness but ahead you can see the dawn." The wicked few standing in opposition to Bretton Woods were such as "the wolf pack of exchange speculators," who were going to be very sorry; also the international bankers whose profit had been in monetary anarchy, the isolationists, and the twice benighted, like Senator Taft. If the plan were defeated the hope of the world for peace and order would be dashed.

The *New Republic* said: "Let the members of Congress beware: if they vote against Bretton Woods in substantially its present form they are voting for long-continued world-wide poverty and misery and the likelihood of another war." Bretton Woods or else was the theme line for hundreds of essays and editorials,—"Bretton Woods or War,"—"Bretton Woods or Isolation."

And these were supposed to be monetary proposals!

But they were in fact not monetary proposals. They were political proposals in monetary disguise, and that is why there was so much confusion about what they meant and why the argument for them played the great scale from pure love of mankind to the vulgar hope of gain. Even Mr. Morgenthau could interrupt his ecstasy to say: "I can assure you that they are definitely good business for the United States." And the CIO said the Bretton Woods plan would guarantee not only a world peace and a rise in the standard of living for all backward people, but also "jobs for five millions of American workers in foreign trade." Therefore profit for all at no risk and no price whatever. Nor was the profit

motive that controls private capital neglected. Through the International Bank, or under its guarantee, private investors would be able to lend freely to foreign governments with the certainty that their money would be paid back with interest. However, the first condition for setting up the International Bank would have to be the repeal of the Johnson Act. The Johnson Act was a law passed after European governments generally had repudiated their debts to the United States Treasury; it was a law that said simply that no government in default on its obligations to the American government could borrow money in the American money market. Lend-lease was partly designed to overcome that awkward difficulty.

When the agreements were signed by the experts at Bretton Woods it was definitely understood that not one of the forty-four governments represented was committed to anything. Each one was free to accept or reject the plan in whole or in part or to propose amendments. For his government, Lord Keynes announced that Great Britain took over-all reservations in order to preserve perfect freedom of action. Not one of the other forty-four governments has yet acted on the plan, and it is probable that Great Britain will reject it unless the United States can be persuaded to involve itself in a series of further international commitments to share the foreign trade of the world according to a grand cartel plan. Otherwise she may keep her sterling bloc area intact and hold to empire preference. And yet for all this, as a matter of record, the idea was built into the American discussion that this country somehow alone was morally committed; and in many places there was something like this: "If the United States will not live up to its pledge on a simple matter of international banking, what hope can there be that it will assume the far more serious obligations of a new world organization for world security?" But this was sentimental slub, and more-over dishonest, because there was no pledge.

Change of Emphasis

IN all the early discussions of the International Monetary Fund by its friends emphasis was on *stability*. Indeed, at first it was called the International Stabilization Fund. Latterly the emphasis has shifted to *flexibility*. "The Fund's purpose," says an article in the *Federal Reserve Bulletin*, "is to promote exchange stability. Stability, however, is viewed not as an end in itself, but as a means of promoting trade and, through trade, a high level of employment and income. Insistence on stable rates, irrespective of the effect of those rates on employment and income, might mean losing sight of this objective."

Certainly. The question is: Whose high employment and whose income? It is true that exchange

rates must be flexible. Rigidity would defeat trade. But it is true also that exchange rates may be altered for political reasons. Under the rules that are to govern this flexibility; any member nation on its own initiative may change the value of its money—that is to say, may debase or enhance it in terms of other people's money—up to 10%, and then more unless the Board of Governors of the International Monetary Fund says no; and the Board must say yes if it is satisfied that the change is necessary "to correct a fundamental disequilibrium."

Among those who expound the Bretton Woods thesis with permitted authority is Alvin H. Hansen; and although he does not speak for the Federal Reserve System, he is one of its economic advisers. Discussing these rules of flexibility, he says that they are intended "to provide international machinery on a long-term basis for orderly changes in exchange rates when such changes are necessary to promote international equilibrium. Technological, transportation, and market changes may place the cost situation of one country out of line with others. Accordingly, such a country may be compelled to seek an adjustment of its exchange rates, or else resort to internal inflation."

This can mean only that one function of the Monetary Fund would be to equalize "cost situations" between competitive nations. And so there is light on the meaning of the word *disequilibrium*. If by technological advance or any other means one nation reduces its production costs to a point where it can profitably undersell another nation, that evidently tends to create a disequilibrium. Not only does that nation's "cost situation" give it an advantage; it is guilty of the political crime of cheapening the price of human satisfactions in the world. The offending one may be, for example, the United States. If it will not take steps to penalize or restrain its own exports, then any other nation that thinks itself injured may give its foreign trade a shot in the arm by debasing its money. Thus, the old evil of competitive devaluation of currencies would be resumed, with the difference only that it would be done in the name of equilibrium and with a certain formality.

Hitherto each nation for itself has met competitive "cost situations" that worked to its disadvantage by erecting tariff barriers. This country has had a sliding-scale tariff designed to equalize costs of production and to protect itself against the subsidized exports of other countries. Now it is proposed that the International Monetary Fund shall mind these situations for the general good of the world and act upon them through the flexibility of exchange rates, and do it under a mandate to cancel out both advantages and disadvantages, whether they are natural or artificial, thereby maintaining the international equilibrium. Thus, to the Board of Governors of the International Monetary

Fund each member nation would surrender ultimate control of its own foreign trade, and in more or less degree, control of its domestic economy and national income. What it receives in return is the expectation that with no fundamental disequilibrium permitted in the world of trade every nation may enjoy full employment and a greater national income.

Free Bodies

ANOTHER feature of the Bretton Woods plan that has been lightly passed over is the stipulation that both the International Monetary Fund and the International Bank for Reconstruction and Development, in respect of their assets, property, income operations and transactions, "shall be immune from all taxation and from all custom duties." The Fund and the Bank together would begin with resources of nearly \$18 billion. One would control the foreign exchange of the world; the other would make reconstruction and development loans everywhere, both in a direct manner and indirectly by underwriting private loans. And it could very well happen that they should become the two great trading bodies in the world, and the only two not only tax free in every way but privileged also to pass through any member nation's tariff barriers as if they were non-existent. In the natural way of things it happens that a bank from time to time comes into possession of large disposable assets, as for example by default of a debtor who has pledged material things as security for a loan. In that case the Fund or the Bank could dispose of the goods in any market of the world, including the American market, duty free; and might indeed feel obliged to do so in order to maintain the international equilibrium. So the agreements read; and if such a thing could not happen, why was this immunity from taxation and customs duties put in?

Blessed Are the Spenders

UNDER the head of "Management of the Public Debt," there was a significant paragraph in the President's annual budget message to Congress. He said:

"Management of the public debt is bound to have a profound influence on the economy for a long time to come. Retaining high taxes on the masses of consumers for general reduction of the debt held by financial institutions may destroy purchasing power and create unemployment. But the use of progressive taxes for the redemption of bonds held by millions of individual savers may have a stabilizing influence on incomes and employment."

This is the unintelligible language in which the ideas of functional finance now are expounded. It has to be translated. The idea here is that if the government uses general tax revenue to redeem bonds that

are owned in large blocks by rich investors and by financial institutions the effect is deflationary because rich investors and financial institutions generally are savers, not spenders, wherefore the money they receive back from the government for their bonds will not be immediately spent to swell the national income. On the other hand, when bonds are redeemed out of the hands of millions of small individual owners the effect will be if not inflationary at least stimulating, because these are the spenders and the money they receive from the government will go right back into active circulation, thereby increasing the national income and creating employment. Theoretically, this is more or less true. But that is not the point. What the President proposes is "the use of progressive tax rates for the redemption of bonds held by millions of individuals"—that is to say, the spenders. Against whom will the progressive tax rates lie? Certainly not against the millions who are the spenders because they are in the low tax brackets. The progressive tax rates will apply only to high bracket people, to the rich, to the savers. The meaning of what the President says, therefore, is that the high bracket people shall be made not only to redeem their own bonds with their own money, but the bonds of the little holders, too. Waiving all other aspects of the matter, this distinction between big and little bond holders and between inflationary and deflationary effects of bond redemption seems very injurious to the doctrine that since we owe the debt to ourselves it is neither a burden nor a liability because the redemption of it is merely a business of transferring money from one pocket to another. If that were true the size of the debt would not matter. This, of course, is a fallacy—a fallacy, that is to say, from a point of view of sound finance. It is challenged on that ground by those who are called *debt conservatives* as against *debt liberals*. It is perhaps a mistake, or at least a waste of time, to challenge it on that ground. The true issue is thereby all the more concealed. The idea of a perpetually expanding public debt is not a fallacy from the point of view of those who hold that for the regulatory power of free prices, free markets and free enterprise there shall be substituted the supreme power of government to control and regulate and police the economy. From that point of view a perpetually expanding public debt is the sabotage weapon that will destroy the world of private capitalism. Logically so, with no flaw or fallacy in it.

The New Wallace Weekly

THE *Foreign Commerce Weekly* is a publication of the United States Department of Commerce and therefore an official organ of the government, supported by the unknown taxpayer. In the first number to appear since Mr. Wallace became Secretary of Commerce there is an excerpt from Sir

William H. Beveridge's new book entitled, "Full Employment in a Free Society." This book is the new political bible. It lays down the complete and orthodox doctrine of planned economy. The excerpt printed in Mr. Wallace's weekly ends as follows:

"Pursuit of full employment is not like the directed flight of an aircraft on a beam; it is a difficult navigation, in which a course must be steered among shifting, unpredictable, and to a large extent, uncontrollable currents and forces. All that can be done is to see that the pilot has the necessary controls, and an instrument board to tell him when and how to use the controls. It is necessary also that the pilot should always have the will to use the controls by which alone he can reach his destination."

Pilot is a chocolate-coated word. In place of it try *leader*. Then what you need for a full-employment policy is a leader with the controls in his own hand and the will to use them for a destination that he alone can reach.

Conquered Territory

REVIEWING the first one thousand days of the new regime, President Roosevelt said: "In thirty-four months we have built up new instruments of public power. In the hands of a people's government, this power is wholesome and proper. But in the hands of political puppets, of an economic autocracy, such power would provide shackles for the liberties of the American people." The first open factional struggle within the regime for control of the most powerful one of the new instruments, namely, the financial power, came to a head with the expulsion of Jesse Jones and the nomination of Henry A. Wallace to succeed him in the dual role of Secretary of Commerce and czar of the government's lending agencies. Mr. Jones did not like to be expelled; but more than that, he shuddered to think what might happen to the country if the power he had been exercising for thirteen years should now fall into the hands of a man like Mr. Wallace. Having possessed it, he knew what it meant. He knew it all the time; and although he had exercised the power wisely, "on a nonpartisan basis, for the benefit of all the people," nevertheless it frightened him.

The President's nomination of Mr. Wallace to succeed Mr. Jones went to the Senate, and Mr. Jones appeared there before the committee to which it had been referred with a prepared statement in which he said: "The lending agencies of the government can be used to destroy what we have built up in this country in one hundred and seventy years." This statement was received with astonished silence. Year by year the Congress itself had created this power and had delivered it into the hands of the President with no foreboding of such a sequel. One Senator asked Mr. Jones if there was no limit to it.

He shook his head. There was no limit, or hardly any. The government's lending agencies, he said, could lend any amount of money for any length of time at any rate of interest to anybody. Then Mr. Wallace appeared before the committee and said: "I will use the power in the interests of the American people."

What then was the question before the Senate? The question was: Is Henry A. Wallace a man who may be trusted to exercise this power with wisdom and restraint and not in a manner, as Jesse Jones has suggested, to destroy the American principle? In any case it would have to be, if not Mr. Wallace, a man nominated by the President, not one elected by the people. Whether or not this fourth power of government should exist at all was not the question. And why was there no such question? Because the lending agencies of the government have conquered their territory and are able to defend it against Congress. Who would dare to propose that they be abolished? If they were abolished, who would subsidize agriculture? Who would provide risk capital for little business? Who would support private enterprise? How in general could people continue to be bribed with their own money?

In One Groove

THE following statements were made three weeks apart,—one by the President in his annual message to Congress on the state of the nation and one by Henry A. Wallace in the long paper he read to the Senate committee sitting on his nomination to be Secretary of Commerce.

The President said:

The necessary expansion of our peacetime productive capacity will require new facilities, new plants and new equipment.

It will require large outlays of money which should be raised through normal investment channels. But while private capital should finance this expansion program, the government should recognize its responsibility for sharing part of any special or abnormal risk of loss attached to such financing.

Plagiarism? Psychic coincidence? Or did a ghost writer nod?

Mr. Wallace said:

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Winds of Opinion

The history of the world's religion, philosophy, literature and science records wisdom on the highest plane and of most convincing character. Yet, that wisdom has failed to control the conduct of mankind.—*Dr. Nicholas Murray Butler.*

Rationalism under the modern name of Liberalism has become an unreasoning religious faith. As such it forms the guiding emotion of the masses. And you cannot argue about religion. It is simply a blind faith—the blinder the more laudable. But the time will come when you can substitute a new religion for one that has become hopeless and as such anathema.—*John Rustgard.*

We are gradually losing our economic freedom. It is a danger. We never will have the economic freedom in the postwar era that we had in the pre-war era unless we fight more intelligently and better for it. We are traveling down a road the end of which we do not know and too many of us are uninterested at what the end is going to be. We fail to recognize the fact that when men lose their economic freedom, they lose their political as well as their personal freedom. It is inevitable.—*Alfred P. Sloan, Jr.*

China's interior had a civilization before the year 1. America was a jungle long after Christopher Columbus was laid to rest. Now, 500 years from start, America's interior has railroads and tank cars and moves kerosene 200 miles a day for 1 cent a gallon, but the Chinese still lug their oil on the end of a stick 100 miles in 10 days at 10 cents a gallon. Chinese coolies draw a dime a day and walk; American railroaders get \$8.50 a day and ride. It is a matter worth looking into.—*Anonymous.*

No nation has during the war found the secret of full employment in peacetime. It is a dismal fact that neither this nor any other modern nation has found the secret of full employment in peacetime. Governments everywhere are committed to continuance of the social and economic policies of the Thirties. The result then was economic stagnation and unemployment.—*Murray Shields, Economist, Irving Trust Company.*

Unless demand remains at a very high level during the early postwar years, it is difficult to see how these price guarantees can be maintained without production control on a much wider scale than has ever been practised in the past. As long as farmers are assured of high prices for their crops, it is not

likely that they will voluntarily and individually reduce their output to much lower levels. Unless the government adopts sweeping measures of control, therefore, it is likely to find itself confronted with a set of unmanageable surpluses.—*Guaranty Trust Company.*

The danger is not that the government will go bankrupt. The important thing is that a debt of this size inevitably compels government to intervene more and more in the economic system.—*Elliott V. Bell, New York State Superintendent of Banks.*

We shall prove that our idealism is more practical in life than that curious mysticism which is called hard-headed common sense.—*Henry A. Wallace.*

Have we got to face the question of choosing between high employment and high income? Is that what we are up against? Have we got to slow down on technological progress because the trouble with it is it throws too many people out of work? I asked one of my English economist friends—not Sir William Beveridge—about that question, and he said, "Well, I tell you what the answer would be in England. If we have got to choose between income and jobs, we will take jobs."—*John W. Williams, Vice President, Federal Reserve Bank of New York.*

I can tell the Senator what would happen in the Committee on Banking and Currency, or any other committee, if a bill to limit the powers of the RFC, or otherwise reduce bureaucratic power, were to be introduced. The chairman of the committee, under pressure from the Administration, would postpone hearings from month to month. Finally there would be hearings, and then the committee would not be called together to act.—*Senator Taft.*

But revolutions have never been made by majorities. They are the work of bold minorities determined to impose their ideas and their rule upon a weary, hungry, confused and unorganized majority. Unless those majorities react and defend themselves, the revolutionary minorities have a better than fair chance to win the fight. This defense of the majorities, however, can be organized only from within.—*Andre Visson, a Russian, Washington correspondent of The Readers Digest, writing in The American Mercury.*

The dominance of the Atlantic nations is at an end. Russia will be the great power in Europe after this war. The future of the world will belong not to

the high-standard nations like Britain and America—you know British and American workmen are never welcomed as immigrants by other nations; they want too much—but to those industrious nations whose people work hard and long for very little.
—*The Very Rev. Dr. W. R. Inge.*

Furthermore, we ought not to forget the debt that the democracies owe to Russia for her defense against the Nazis and we shall not be allowed to ignore the prestige that Russia and communism have won in Europe because of that defense. In the face of all this, we must either concede an equal status to communism or we must conclude that the world is too small for the communist system and ours and prepare to fight it out.—*Harold H. Fisher, Professor of History at Stanford University and Director of the Hoover War Library, writing in Survey Graphic.*

To a mind nourished on Hayek's mature study, both empirical and theoretical, of the nature of the planned economy, Hook's notion that society might stop halfway in adopting this mode of life, or that anyone would be the gainer if it did, seems especially impractical. It seems a little like hoping a bo-constrictor will eat only half of your cow.—*Max Eastman.*

As you know, I have always been a believer in the document called the Constitution.—*President Roosevelt in his report to Congress on the Yalta Conference.*

Birth of a Slogan

HOW the goal figure of 60 million postwar jobs was arrived at by whom or on what basis of calculation, seems to be one of the mysteries. Henry A. Wallace evidently heard it for the first time by radio in the President's voice. In a speech before the American Statistical Association Mr. Wallace said:

"In the election campaign I had an opportunity to merge economic forecasting with political forecasting. The evening of October 28 I heard over the radio the President's Chicago campaign speech and immediately sent him a wire saying: 'Your goal of 60,000,000 jobs is perhaps high, but I glory in your daring, and, as you say, America can do the seemingly impossible. We are predicting you will carry 36 states and have a 3,000,000 popular majority.'

"The President wired back on November 1 that he was glad I liked the Chicago show and that he promised to make good on the 60,000,000 jobs if I would do the same with regard to my predictions concerning the 36 states and the 3,000,000 popular majority.

"History will record that something was done toward the formulation of economic policy for this country in that interchange of statistical wires."

High Finance for the People

EACH time Congress meets one of the lending agencies of government it gets a fireside lesson in high finance and goes to bed with a headache. This time it was the Commodity Credit Corporation, which was asking that its borrowing power be raised from \$3 billion to \$5 billion, and that its impaired capital be once more restored. Representative Keefe had been looking into it.

The Commodity Credit Corporation, which issues subsidy checks to farmers, was created in 1933 by Executive Order of the President under one of the New Deal emergency laws. It was incorporated in the state of Delaware, as if it were a private corporation, with \$3 million capital. Later it decided to increase its capital to \$100 million, and sold \$97 million of new capital stock to the Reconstruction Finance Corporation. The Reconstruction Finance Corporation raised the money by selling \$97 million of its notes to the United States Treasury.

After the Supreme Court had strangled the Blue Eagle some doubt arose as to the constitutionality of the Commodity Credit Corporation, because it had been hatched in the Blue Eagle's nest. However, that doubt was resolved when the Congress passed a law extending its life and at the same time authorizing it to borrow \$500 million. Thereby the Congress acknowledged foster parenthood. As it became necessary to do more and more for agriculture, Congress increased the Commodity Credit Corporation's borrowing power to \$3 billion.

Representative Keefe recalled that at this time the Congress had the naïve idea of combining service with profit.

"What an altruistic vision the legislators had in 1938," he said. "Evidently they conceived a vision of reduction of the national debt through utilization of the profits to be achieved through the operations of the Commodity Credit Corporation." The idea was that the Commodity Credit Corporation would borrow \$3 billion from banks and investors at a low rate of interest and lend the money on surplus commodities at a higher rate, in the way of banking; and banking could be a profitable business even when conducted as a public service. But what happened was that the Commodity Credit Corporation borrowed money from the United States Treasury on its notes, under a law which permitted the Treasury to invest in obligations of the United States Government.

Meanwhile, ownership of the capital stock of the Commodity Credit Corporation had passed from the RFC to the United States Treasury because the notes the RFC had sold to the Treasury to raise

the money to buy the stock had been wiped out as a bookkeeping fiction. Then in 1939 the President by Executive Order transferred the Commodity Credit Corporation to the Department of Agriculture, and in 1942, by another Executive Order, created the Office of Economic Stabilization and authorized it to use the resources of the Commodity Credit Corporation to subsidize farmers who were unable to make a profit under the OPA price ceilings. This subsidy program was conducted by the War Food Administration, and the head of the War Food Administration also controlled the Commodity Credit Corporation.

Where did the money come from?

The answer to that question was what Representative Keefe set out to find, and what he found he reported to the House of Representatives as follows:

"The facts in answer to this question are comparatively simple. Judge Marvin Jones is War Food Administrator. As such he is also in control of Commodity Credit Corporation. In consultation with the Director of Economic Stabilization, it is determined that a direct subsidy be paid to the producers of milk in this country. Thus, Judge Jones as War Food Administrator has authority to proceed. Judge Jones, War Food Administrator, talks to Judge Jones, directing head of the Commodity Credit Corporation, and asks the Commodity Credit Corporation to furnish funds with which to pay a milk subsidy. Judge Jones, in effect the Commodity Credit Corporation, says to Judge Jones, War Food Administrator, 'I will provide the money.'

"Then he goes to the Treasury Department and deposits the notes of the Commodity Credit Corporation. The Treasury Department buys these obligations and credits the Commodity Credit Corporation with the amount purchased. A few of these obligations might be floated out to some banks or to individuals, but the bulk is taken over directly by the Treasury. Thus, the Commodity Credit Corporation has the money, the Treasury Department has its notes.

"Where does the Treasury get the money to purchase these notes to enable the Commodity Credit Corporation to pay this milk subsidy? Congress has given authority to the Treasury to purchase the obligations of the Commodity Credit Corporation. It gets the money by taking it out of the general funds of the Treasury. . . .

"All that the Treasury has are the notes of the Commodity Credit Corporation. Then, once a year, the Secretary of the Treasury appraises the assets of the Commodity Credit Corporation in accordance with the formula heretofore referred to and advises that they have run into the red several hundred millions of dollars. They then come to the Congress to appropriate the money to make

good this deficiency. I am advised that they are about to ask the Congress to appropriate \$256,764,881.04 in order to restore an impairment in the capital structure of the Commodity Credit Corporation as of March 31, 1944. Thus, Congress makes good the loans."

At a committee hearing Mr. Bell, Under Secretary of the Treasury, was asked what would happen if Congress refused to appropriate the money to restore the impaired capital of the Commodity Credit Corporation. Mr. Bell said it would just go on and on until it had exhausted its borrowing power of \$3 billion. The following colloquy occurred:

"Mr. KEEFE. It could ultimately lose the entire \$3,000,000,000?"

"Mr. BELL. That is right.

"Mr. KEEFE. Well, in effect, therefore, the money has already flowed out of the Treasury of the United States?"

"Mr. BELL. Yes, sir.

"Mr. KEEFE. The taxpayers' money has been spent?"

"Mr. BELL. That is right.

"Mr. KEEFE. Well, what is bothering me is what becomes of the constitutional provision with respect to money flowing out of the Treasury of the United States without specific appropriations by the Congress.

"Mr. BELL. You are speaking now of the amount of money that goes to the corporation as a result of our purchases of stock or notes?"

"Mr. KEEFE. Yes, surely you resort to that finally. You purchase the notes and claim you have authority from the Congress to purchase them.

"Mr. BELL. That is an appropriation.

"Mr. KEEFE. You consider that to be an appropriation?"

"Mr. BELL. Yes, sir. We have an indefinite appropriation for the purchase of public-debt obligations of the United States, and this merely uses that vehicle for purchases of the obligations of the Commodity Credit Corporation. That was first adopted by the Congress in the creation of RFC in the act of 1932. It has been extended to other corporations, the Treasurer of the United States crediting funds to the Commodity Credit Corporation and to other corporations upon the purchase of their notes, then the Treasurer of the United States getting reimbursement through warrants approved by the Secretary and countersigned by the Comptroller General the same way he gets reimbursements for the public-debt obligations that he redeems or purchases. So it is an appropriation, and I think the constitutional provision is fully complied with."

Frame of the Future Market

By *Virgil Jordan**

EVERY market, anywhere, at any time, is a picture, pattern or design composed of the innumerable human impulses, purposes, preferences and capacities of demand and supply which move the individuals and groups involved in it; but whether it be a moving picture, a colorful pattern, or a monotonous mechanical design, as it can be, it is always set in a frame which accentuates or defines it, marks its boundaries and distinguishes it from others that have been or might be imagined. This frame may be made of many materials, but its form and structure, which the picture must fit, seem to me to be determined always by three fundamental factors or forces.

One of these is political; it concerns the character of the state, or whatever external artificial authority exercises force upon the conduct of individuals in the market.

Another is technological; it concerns the character and state of the technical arts of production, finance and distribution.

A third is biological; it concerns the character and qualities of the human material in the market, their reproduction, growth and vitality, their ideas, hopes, habits, manners and customs.

These are the factors that frame the market picture at all times, whether we are aware of them or not. Few of us yet realize how firmly and fully the market picture of the past century and a half, in the Western World, at least, up to the first World War, was set in a frame formed by the unprecedented rapid growth of population, the exchange of raw materials and manufactures, the use of power machinery, free private investment in fixed plant, voluntary employment and parliamentary government—or how completely that frame has dissolved in one country after another in the past twenty-five years.

When we have finished our pictures of the post-war market, here and abroad, I think we shall find that they will be drawn for a frame new and unfamiliar, but molded by these same forces. It seems to me that that frame is today substantially finished and ready, and indeed has been consciously or unconsciously in the mind of many of the artists who have been tracing the design and projecting the pattern of the future market on the canvas of their imaginations.

For brevity, and to challenge your attention to it, I am going to be dogmatic in describing it, and sketch its outlines in terms of forecast; but we should remember that most of the things I mention in describing the frame have already happened, now exist, or can be fairly fully realized within the lifetime of the sons of ours who are fighting in this war. When you think of the future in the terms of a frame it is easier to fill in the picture for fifty years hence than it is to forecast the events of the next fifty-two weeks.

By the end of this century most western countries will have rounded a full circle and be back where they were politically and biologically at about 1700, but equipped with a scientific and economic technology quite new. The future, as its form has been shaping itself before our eyes in the first half of this century, is destined to become increasingly statistical and economic, dominated in thought and action by statism and economism—in its material and technical aspects moving swiftly forward toward a new era of what might be called modernized magic or alchemy, and in its political, spiritual and biological aspects static or retrogressive toward a barbarism furnished with all modern conveniences of self-extinction.

Whether we consider it from the point of view of the market, or any other, the future is framed by four salient facts which have developed during the past forty years and are unmistakably discernible today.

The first is the return of an authoritarian (or even in some places, totalitarian) type of society, with the invention of a new or modernized form of benevolent absolutism or altruistic tyranny in government, which I call the Welfare State.

The second is the end of the so-called industrial or power-machinery revolution (which accompanied the invention of limited government) and its replacement by a more and more completely chemical technology.

The third, which is much more elusive, subtle and difficult to see or comprehend, is the replacement of fixed plant and equipment in the productive system by new forms of capital, and the corresponding change that has occurred in the nature, function and value of money.

The fourth is the appearance, among all the western peoples, of static or decrescent and aging popu-

**A speech delivered before the American Marketing Association in Cleveland.*

lations, with standardized, stereotyped or uniform characteristics, and increasing passivity, dependency and susceptibility to mass manipulation.

I imagine that most candid-minded people realize that the form of government which framed the market during the first century of the industrial revolution—one of limited and stipulated constitutional powers enforced by parliamentary control of the public purse—has in fact disintegrated, but few are as yet fully conscious of the nature of the political system that has replaced it. Its roots run as far back as Peter the Great in Russia, and the German Princes, and it is in some respects a hybrid in which one can trace strains of Bismarck, Lenin, Trotsky, Mussolini and John Maynard Keynes; but it is really a new invention or discovery in political technology, comparable to and paralleling the change from machine to chemical technology.

DURING the thirty years since the outset of World War I, every important western country has developed a new type and technique of government. The phases, superficial features, and final forms have varied considerably according to circumstances and the political personalities involved, and many trade names like National Socialism, Communism, Fascism, Liberalism and the New Deal, have been given to its manifestation in different places. Fundamentally they are the same, and technically state capitalism is perhaps the most accurate common description; but I prefer to call them the Welfare State because, while social welfare, or "social gains" as we call it here, is a secondary and passing phase of their evolution, chief emphasis is put upon it in the early stages, and is the main basis of their appeal to the population. This is what we call the Weimer period in the German story, like the first five years of the New Deal here. In every case history—except that of Italy, which suffered a bad accident by embarking upon its Abyssinian adventure and moving into the military-imperialism stage too early—the welfare phase evolves inevitably into the investment or state financial dictatorship phase, of which we see the full-fledged form in Soviet Russia, and social gains become secondary or subordinate to government enterprise and development, first in military terms and finally in the form of imperial expansion.

The Welfare State always starts as a more or less blind and automatic attempt to meet the problem of mass unemployment, or, more accurately, of mass dependency upon employment among large urban or rural populations living under a money economy where employment is increasingly limited by the expansion of capital facilities provided by private voluntary investment in fixed plant and equipment.

In the welfare phase under mass pressure and to attain or maintain political power, the State attempts to meet this problem by redistributing to

consumers in relief or subsidies a national money income which is usually declining in amount or purchasing power, or manufacturing artificial national income by using public credit for made-work which doesn't pay out.

THERE is nothing new in all this phase of the Welfare State, and when it runs into inflation that threatens to destroy the public credit along with the value of the remaining private investment resources of the community, and so imperils their own political power, the modern welfare statesmen have moved their political technique into new territory by a daring reversal of policy. Henceforth the objective is not to increase consumption, but to reduce, control, ration, equalize and standardize it; to so manage production that capital will form and accumulate in its own hands, and to syphon into the State treasury the people's savings and secure the fullest control and direction of their use for its own purposes.

Among these purposes, of course, as always, is the maintenance and expansion of the power of the State itself, and no more formidable and comprehensive weapon for this purpose has ever been invented than the investment state as it has developed in Russia and Germany since 1933. On its purely political side it has been implemented in these cases, and is beginning to be in this country, by a trained technical and managerial bureaucracy, which is usually ready to hand in every country for planning and administrative purposes, and so by the line-and-cell type of party organization, invented by Lenin on the German military model, a small integrated and disciplined minority systematically penetrates and destroys, or maintains effective control of, all forms of voluntary association in the community. The latter may or may not be permanently necessary in the Welfare State, except in the early stages of consolidating political power, and may be minimized, or omitted, or ultimately disappear in its development, like other crude experimental accessories, such as the Gestapo, the bread-card, the workbook and the concentration camp, because they are superfluous—but that remains to be seen.

The essence of the political technique of the advanced Welfare State is a sufficiently complete strategic control of the income stream and investment fund of the community so that no private resources which could be used by citizens or groups for independent productive activity or enterprise are permitted to accumulate in anybody's hands outside the State. This can be brought about by taxation, forced saving and lending, rationing, price and wage control, raw material priorities, manpower controls, forced labor, and control of exports and imports; and in its full-fledged form, as in Russia under the final five-year plan, as well as in Germany in the final phases of the Nazi economy, it provides com-

prehensive and decisive direction of the activity of every individual, without conspicuous police power, because no person or any group has the economic means to challenge, resist or even ignore the controlling purpose of the State. Though Russia took the short cut of confiscation of all private productive property, the Nazi development showed that this was unnecessary and that in many ways the maintenance of nominal private ownership, the control of income and operation and the absorption of management into the administrative bureaucracy was an improvement in political technique, which is being copied here and in England.

IN the fully developed Welfare State it is quite possible that many scattered and marginal areas of more or less independent productive activity and industrial enterprise may ultimately be allowed to remain, so long as they do not seriously threaten political control of the strategic points and of the main streams of the investment resources of the community. But the State must acquire effective monopoly of economic development resources; it must assume or control practically all strategic enterprise or expansion functions, otherwise its political power will be constantly threatened by the growth of independent resources and effort and their use through voluntary forms of association, especially in such countries as this and England, whose development has been based upon them, and where people have been disposed to them by temperament, training and tradition.

When the community loses power to dispose of its own income and surplus, by the abolition, suspension or sterilization of parliamentary control of the purse, it has lost its power over the State and it cannot be permitted to regain the means of reasserting that power even by slow, minute accumulation of any kind of productive resources, including ideas as well as money. That's why the Welfare State tends always to become totalitarian, and inevitably extends its power over education, communication, thought, science and over every form of voluntary association, wherever the latter involves any independent property or financial resources.

When the Welfare State moves from the purely welfare phase of pyramid building and relief into industrial public works, plant building and state economic development activities, it has so far always done so for rearmament purposes, perhaps because war is the easiest way to meet the employment problem, and imperial expansion or conquest the quickest method of capital formation. It is safer, as well as easier and faster, to raise the standard of living of Mars, and even of other countries, than to raise that of the domestic population.

What happens after the Welfare State has run through the war and rehabilitation stage is speculative, because so far none of the welfare states has

had to face the problem of deciding whether and how far it can safely allow the standard of living among its own people to rise, or whether it must continue to skim off the surplus, and for what purpose.

My own guess is that among the surviving welfare states in this war most of the surplus will probably be channeled into state foreign investment, or lend-lease rehabilitation, through some form of superfinancial dictatorship or international investment board, set up by the victors, till they get to fighting again among themselves for foreign outlets for their investment surplus. To leave it at home would be dangerous or useless. We shall know more about that when we have the answer to such questions as, for instance, whether it will be Uncle Joe or us who first develops the Danube Valley Authority, and takes on the job of industrializing China, during the next decade.

WHAT the mature Welfare-investment State means for the market picture is fairly easy to imagine, because we have already seen its pattern in the extreme case of the war economy here and abroad. Since the keystone of the structure is state control of consumption and the syphoning-off of the investment funds of the community for state use, every element of that wartime pattern is implicit in the peacetime picture. Control of prices, wages, raw material, manpower, capital markets, management and advertising; strategic rationing, grade labeling and standardization; subsidies, capital levies, confiscatory taxation, social insurance, forced lending and income equalization—are all among the essential mechanisms of leveling and controlling mass consumption and private saving which the Welfare State must use to secure and maintain command and direction of the community's investment fund.

In the perfect capitalist State (as in Russia) the consumer is always a potential traitor, and the market place is enemy territory, the breeding ground of counterrevolution. In every country today the State practically determines how much of the community's income can be spent there, and in some measure for what. It not only actually manufactures and disburses a large part of that income, and makes the market (for both capital and consumption goods) a government market, but it virtually collects or takes a lien on the entire national income and allows the citizen to keep for his own use in the market only as much as seems to the State economically necessary or politically appropriate. Moreover, it determines the purchasing power of that residue.

The Welfare State is here now in every country, in some of its phases. It is the prevalent form or principle of government everywhere. Whether or not it has yet fully captured the mechanism of the

market, it sets its atmosphere of economic activity so pervasively that no one who is concerned with the future market at all, at home or abroad, can or would make any kind of plan or commitment about it without conscious or unconscious reference to that atmosphere. It is the very air that business breathes today, and you have only to study the case histories in Europe, and trace step by step the silent, invisible processes by which that atmosphere was created in each of these countries, to realize clearly how completely we are immersed in it in America already.

That atmosphere does not exist merely because for a decade or more in this country business has operated in a government market, on government money, under government management, and with government labor. It has been generated by a multitude of individual decisions or indecisions within the business community and government, by businessmen, labor leaders and public officials who have spiritually sold out to statism because of indolence, indifference, ignorance or ambition for power or prestige, who have been willing to make bargains with the trigger-men of the Welfare State for safety or convenience, or who have followed Sumner's cynical maxim to the effect that if you live in a country run by a committee, be sure to get on the committee.

The perfume of the Welfare State is no longer a partisan monopoly. It does not depend upon political personalities. All are saturated with it; the Gresham's Law which is operating in politics, as well as finance, literature and business organization, makes certain that no one with political aspirations can escape it or ignore it.

THE drift toward the Welfare State in America and England, like its earlier manifestations in Western Europe, is an expression of the vital capacity of their populations. These are all aging peoples, static or declining in reproduction, increasingly urban, increasingly dependent upon employment, more and more passive in character and uniform in type, and more and more dominated by the desire for security and the fear of responsibility or risk. Russia may be an exception as regards the birth rate, but I have never known a Soviet statistic that is trustworthy. Painful as it may be, no candid mind can escape the fact that most of the American people today are not afraid of the Welfare State; a great many believe it will give them what they want; many are ready for it when it comes, whatever it may bring; and some demand it immediately and fully.

We are dealing here with a biological change of life, a sort of national menopause, and one does not blame anybody or anything for it, though one cannot help hoping for some sort of social or economic hormone that may retard or ease it.

It may be that larger and larger doses of government investment or strong injections of mixed

economy serum may revive the creative vitality of individualism in the community, but I doubt that they are a sufficient substitute for vigorous glands in the body politic. Maynard Keynes's multiplier cannot make up for the deficiency in other forms of multiplication, though the Soviet laboratories, whose technical marvels are the wonder of the world, have recently demonstrated that it is easy to make a dead animal imagine it is alive and act that way, including even evidence of gratitude toward its master; and it is possible that something may be done with the population problem along that line. The Welfare State so far has been able to lower the death rate, except among political prisoners, but not to increase the birth rate.

In the meantime, whatever we may think of it, and however we may rationalize it, there is no mistaking the implications of this primary biological and spiritual fact in the frame of the market picture for the future. Barring immigration, in fifty years from now the American market will have fewer producers and no more consumers in it than today. They will be older people, and whether they exist under a Welfare State or not, and no matter how many social security cards they carry, their real purchasing power, and their consumption capacity, will be no greater than it is now, unless other technological changes of which I shall speak in a moment make it possible.

Certainly more of the commodities and services formerly provided by the market, medical care, travel, recreation, amusement, as well as information, will be supplied by government, since every welfare state so far has found it necessary and safer to provide these free "social gains" to the masses as a cheap substitute for purchasing power in the free market in order to leave them as little money as possible of their own to spend as they please. When you are in a worker's rest home, or on a strength-through-joy ride, the State knows what you are doing and you can't waste so much of its capital doing it.

THESE reflections bring me by rebound to the other sides of the frame where I fancy I see some possibility of escape. We are dealing here with fourth dimensional factors in the frame of the future, which may either round it out or shatter it. I do not presume to say what they will do to it, for it is hard enough at this stage even to see them clearly. Let me put the matter bluntly.

As an economic fact the so-called industrial revolution—that is, the revolution in production based on the coal-iron axis, and resulting from the use of power machinery, set up in fixed plant as permanent real property, created by fixed-interest capital investment, has run its course and is finished; and most of the financial, labor marketing, and perhaps political structures, ideas and institutions built upon

it are dissolving under our eyes, though we don't yet see or admit it. Nothing new in mechanism of any importance is necessary, or possible, except in the materials of which machines are made and the energy by which they are run. The money invested in what we have now or will build for a while is evaporating in value, and in a generation a large part of what is left of them will probably be rusting in the jungles of Zanzibar or Burma like the ruins of Angkor-Wat, or knocking about the hinterlands of this one world like the Standard Oil's old kerosene cans in China.

We are now deep in the chemical revolution, the atomic economy, in which the productive process has been broken loose from the coal-iron axis, is becoming more and more completely fluid, free from fixed location, or dependence upon any determined natural raw materials, craft labor or any kind of permanently defined skills or training. It can take place anywhere on the planet where a power line can reach, and even the machines it uses need not be made of iron dug from the earth, but can be drawn from the air or out of the sea. Someone has called it the era of men, money and molecules which has replaced the age of machines—which is true except that money in the traditional sense might be left out of the list.

The productive system that frames the future market picture is not an arrangement of separate acts of extraction, cultivation, construction, manufacture, assembly or distribution of commodities, but a continuous flexible flow of ideas, methods, energy, man hours and atoms, in which what we called money appears as a fluid medium of transmission, a mere carrier that evaporates at the end, or returns to the reservoir, with the consumption of the product in the market. Productive capital today consists of this stream of ideas, methods, energy, man hours and atomic material, not of the structure of plant, bricks, cement or machines which are merely the tent or clothing in which the operation is carried on. All capital has become working capital; and like the self-starter in your car, every going concern today creates its own as it goes. These facts are written large and plain. As to how they will affect the picture in the frame, I can only put you questions like these:

The value of money in terms of man hours and materials has been declining for five hundred years, even since before the industrial revolution. What will it be worth in the market for man hours and commodities fifty years hence in the full flower of the chemical revolution? What will an ounce of gold be worth, calculated in the man hours it takes to mine it in the Rand or the man hours it takes to make it in Wilmington? In fact, what will a standard union man hour be worth in a push-button paradise or a slot-machine economy? If money is to serve as a store of value, what will it store, and

where will we store it, when men and methods and molecules begin making both things and money out of nothing for nothing? If money is going to be worth less and less in any market, won't it be possible or necessary to find a better way of distributing goods than by using money as a medium of exchange? Many statesmen are wondering about that already, and think they know the answer.

What will the foreign market be, and what will become of the one-world shaking issues of foreign trade, when everybody can make anything they want anywhere, including weapons? Even this brief war has demonstrated that any nation that has raw materials and no machines can make them; and any nation that has machines but no raw materials can make them, too.

THESE are rude but not idle questions. They emerge from the fact that both the technological and financial structures that framed the domestic and foreign market during the century of the industrial revolution are disintegrating, and in its place a fluid, mobile productive system centering in the chemical laboratory has already appeared. What it could or will do to the distribution of population, its standard of living, to labor organizations and social security systems, to the market for money, fixed plant, mortgage investments, government bonds, to prices, wages, to international trade, is difficult to imagine as yet; but what interests me most is how it fits into the rest of the frame which I have described. What will it do to the triumphal progress of the Welfare-investment State?

The case histories tell us nothing conclusive as yet. Germany took the lead in applying state capitalism to the chemical economy, but turned it to war use with disastrous consequences. Russia barely completed her industrial revolution in time for war. It would seem that as an improvement in political technology, the Welfare State thus far has just about caught up with the industrial revolution—it has discovered the steam engine, the cotton mill and the thousand-year mortgage bond. Still influenced by naïve Marxian ideas, its economic thinking has not gone beyond nineteenth century concepts of the nature of capital and the production process. It still thinks in terms of the coal-iron axis, limited material supplies, fixed plants, fixed investments, control of the market, internal and international exchange of food and natural products for manufactured goods and permanent machinery. Its political purposes and economic planning are all erected around this static security structure, which is relentlessly being dissolved in every laboratory the world over. It can capture, absorb and perhaps control the technicians, but can it regiment the atoms and molecules?

It can perhaps syphon off the surplus income and investment fund of the community, and bury it,

according to perfect blueprints, in the most beautiful plants with the best machines, or in roads, bridges and waterways which no one will use. But can it capture, control or direct this protean, fluid flow of energy, ideas and atoms which is the essential productive process of this century and which is spreading over the planet in a continuous stream emerging from the mind and spirit of men? Can it prevent the incessant erosion or entropy of every form of static capital, fixed ideas, formulae or methods, or vested geographical, political or economic group interests, which underlies this process?

THE world's drafting rooms today are littered with sketches of the future, setting forth and stimulating the creative imagination of man for many things to come, from better bungalows and automobiles to nobler mansions for the soul, magic carpets for the spirit or portentous structures of economic prosperity, social security and international peace, usually surmounted by some omniscient and omnipotent super-State, preferably with the Stars and Stripes floating from the cupola. Yet the designers of the future anywhere have but a single choice of frames for their pictures of it, each plainly labeled with the brand and price by the bitter experience of the past decade. One is the frame of *force*; the other the frame of *freedom*. One, the frame of political authority and security; the other the frame of personal opportunity and responsibility.

Today America no longer feels able to choose the frame of her future, and the blueprints and designs of the postwar world which fill her drafting boards are being drawn for both frames at once, because she can no longer distinguish between them. It is to me one of the strangest events in her history that within a single decade, and despite an unprecedented demonstration of her immense creative power in the greatest struggle against force the world has ever seen, we should have witnessed the return to America of the age-old dogma of arbitrary authority, fitted and disguised in a phony frame of freedom. I know that few among us are aware, or willing to believe, that this is in fact the frame of the postwar pictures we see on the wall as we wander through the interminable galleries of the millenium museum gazing at the exhibits of bureaucratic art, the brisk brush work of the labor landscapes, the careful designs of the academic engravers, and even the bold blueprints of business which are being hung there. But we should make no mistake about the fact and its significance.

ONE by one, as these pictures of the future are presented to us, and as we listen to the idle chatter of the crowd and the persuasive patter of our government guides about their beauty and originality and the genius and imagination of their paint-

ers, it seems that for most of the American people much of the vital sense and instinctive feeling for the living fact of human freedom has faded out. The meaning of the word itself has largely evaporated, and like an old coin worn with familiar use, it has lost its imprint on the spirit and its denomination for the mind. Save in terms of a few trivial conveniences or privileges like driving our car where we like and drinking liquor when we like, the idea of freedom is today so empty that we do not even know it has disappeared and have forgotten that it ever existed. Worse than that, if they are aware of it at all, millions of men in America and elsewhere are coming consciously or unconsciously to fear it, or to hate it, to flee from it or fight it, unwilling to meet its challenge, hoping to escape its burdens and responsibilities; and where the idea of freedom is not a heresy or a phobia, it is becoming merely a boresome bromide, a sterile and stale stereotype of political oratory, a theme for ceremonials, monuments and mausoleums, like all things earnestly discussed and deeply honored when we feel they are definitely dead.

The bloodiest dictators in history have sometimes been sentimental and always eloquent about liberty, generous in lip service to it, and what Mrs. Malaprop would call posthumorous praise of it, knowing well that what's sauce for the public goose is gravy for the governmental gander.

In this, as in other matters, we all live today amid that carefully coordinated confusion of tongues called semantics, comfortably quartered in that modern tower of Babel beautifully planned by our bureaucracies, where we are told the word for everything and the meaning of nothing, and the end of every sentence cancels out the beginning, and the significance of all ideas seems the same. Thus it is that, in thought and speech and action, even informed and honest men in business, labor or government today can talk of freedom, social security, individual opportunity, state authority, business responsibility, government cooperation, mixed economies, national planning, free enterprise and full employment, at the same time and in the same breath, without knowing, caring or believing that any of these things are irreconcilable contradictions both in the mind of man and in the facts of life.

It seems that the idea and the fact of freedom are losing their significance for us simply because we have lost the capacity to think, which is the source and basis of freedom, and of its rediscovery in America a mere century and a half ago, after six thousand years of almost unbroken subjection of mankind to some form of external authority and arbitrary force.

No one can estimate how much time and painful experience it will take us in America to recreate the capacity to think once it has been crippled by indifference or disuse, perverted by propaganda, or

destroyed by the force of authority among great masses of our people. Those men of vision and insight who understand its meaning in American life and destiny must continue, like Galileo, to mumble stubbornly beneath their breath or in the market place, despite the pressures of the political inquisition or the academic sanhedrin, that earth and men still move around the sun of freedom, under the power of individual opportunity and effort and by the law of liberty, not under the force of external authority.

They know that eventually, like every nation which has forgotten it, we will rediscover the fundamental fact, to which every tested fact of life and labor inescapably leads, that men are free, that ultimately nothing does or can command or control their creative or their destructive powers, their thought or work, except themselves, and that this inalienable freedom is the sole source of all the productive prosperity, social security and spiritual progress possible for them. We will understand once more that there is no other authority or compulsion in any form which can add anything whatever to the creative power of free men, or do more than diminish, consume or destroy what they can do for themselves.

WE must plan for freedom once more today, plan boldly and stubbornly, consciously and deliberately, subtly and slyly like its enemies, because in almost all planning for the future in our time freedom is "the forgotten plan." Though it was once set down clearly and in complete detail long ago by men who pledged their life, fortune and their sacred honor to draft it, declare it and defend it, it is today the forgotten plan, the forgotten plan that was made for the first time in America, the original American plan, drawn by and for the original "forgotten man" of Europe and Asia who had lived through all the changeless annals of his centuries till then, and still does, in the iron frame of authority and force, under the plan of compulsion and dependency. Let us not forget it now, or take it for granted for the future, in any of our plans, for though it is the hardest of all human aspirations to design, or implement, or sustain, it is the most profoundly and practically important to us, and the cynical sense of our time which tells us that freedom is a fine thing but you can't eat it will discover before long that men can, and will, starve in body and in soul without it.

So, let me remind you again that liberty is not granted us by grace of governments, constitutions, courts or congresses, nor can we depend upon them permanently to preserve and protect it for us. It does not prevail or persist by the power of political traditions, parties, personalities or laws. Liberty springs solely from the spirit of those common citi-

zens who have the will and the courage to create it for themselves, the strength and integrity to accept its responsibilities and pay its price, the valor, vigilance and fortitude to defend it even with their life against its unseen, incessant and insidious enemies—indifference, ignorance, indolence and injustice. Save as it is more precious to us than prosperity or peace, comfort or security, it will never exist or long endure among us.

The Masses

From the Christmas Message of Pope Pius XII

THE elementary power of the masses, deftly managed and employed, the state also can utilize; in the ambitious hands of one or of several who have been artificially brought together for selfish aims the state itself, with the support of the masses, reduced to the minimum status of a mere machine, can impose its whims on the better part of the real people, the common interest remains seriously and for a long time injured by this process, and the injury is very often hard to heal.

Hence follows clearly another conclusion: the masses—as we have just defined them—are the capital enemy of true democracy and of its ideal of liberty and equality.

In a people worthy of the name the citizen feels within him the consciousness of his personality, of his duties and rights, of his own freedom joined to respect for the freedom and dignity of others.

In a people worthy of the name all inequalities based not on whim but on the nature of things, inequalities of culture, possessions, social standing—without of course prejudice to a justice and mutual charity—do not constitute any obstacle to the existence and the prevalence of a true spirit of union and brotherhood.

On the contrary, so far from impairing civil equality in any way, they give it its true meaning, namely, that, before the state, everyone has the right to live honorably his own personal life in the place and under the conditions in which the designs and dispositions of Providence have placed him.

As against this picture of the democratic ideal of liberty and equality in a people's government by honest and farseeing men, what a spectacle is that of a democratic state left to the whims of the masses:

Liberty, from being a moral duty of the individual becomes a tyrannous claim to give free rein to a man's impulses and appetites to the detriment of others.

Equality degenerates to a mechanical level, a colorless uniformity; the sense of true honor, of personal activity, or respect for tradition, of dignity—in a word all that gives life its worth—gradually fades away and disappears.

The Rising Form of a Planned Economy

General Design * Prototype * Architectural Notes

By Garet Garrett

THE first visible outline of a planned economy for the American people was traced in the Executive Office of the President by the National Resources Planning Board. It appeared as "Part I—Postwar Plan and Program," of an enormous document entitled "National Resources Development Report for 1943." On March 10, 1943, the President sent it to Congress under a sign of his blessing, but with no specific comment; his "earnest hope" was that the Congress would give it thoughtful consideration.

The National Resources Planning Board had said:

"It should be the declared policy of the United States Government to underwrite full employment for the employables; to guarantee a job for every man released from the Armed Forces and the war industries at the close of the war, with fair pay and working conditions."

It had said there should be:

"Formal acceptance by the Federal Government of responsibility for insuring jobs at decent pay to all those able to work, whether or not they could pass a means test."

Having laid down these social propositions it had then appended *The Four Freedoms*, and a lyrical composition entitled, *A New Bill of Rights*, beginning with, "the right to work usefully and creatively through the productive years," and ending with "the right to rest, recreation, and adventure, the opportunity to enjoy life and to take part in an advancing civilization."

That was the last of the National Resources Planning Board.

"Either," said Congress, "this is intellectual doodling in the grand manner, or it's dangerous. In any case, let us make sure and cut it off at the pocket." And that is what the Congress did.

The Form Appears

To everyone's surprise, the National Resources Planning Board expired without a struggle. Its work and personnel were distributed among other executive agencies of the government, and the Congress, unable to find it any more on the public payroll, sighed with relief.

But its work turned out not to be doodling. Within that authentic outline on the political drawing board elements of design began to appear, and,

according to the design, a great ideological form began to rise.

Hardly two years later the President was saying (message to Congress, January 6, 1945):

"In the State of the Union message last year I set forth what I considered to be an American Economic Bill of Rights. I said then, and I say now, that these economic truths represent a second bill of rights under which a new basis of security and prosperity can be established for all—regardless of station, race or creed. Of these rights the most fundamental, and one on which the fulfillment of the others in large degree depends, is the right to a useful and remunerative job in the industries or shops or farms or mines of the nation."

In the annual budget message that followed the President was saying:

"It is the responsibility of government to assure sustained markets. Then and only then can free enterprise provide jobs."

These two statements alone would be enough to raise the National Resources Planning Board's drawing to a three-dimensional form.

Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System was saying:

"The government should underwrite and guarantee a national minimum of income. . . . Such a guarantee is not the impractical dream of the social reformer. Modern governments, including our own, have long since assumed a primary responsibility for the economic guidance and progress of their peoples."

In the *Federal Reserve Bulletin* (February, 1945), Dr. E. A. Goldenweiser, Economic Adviser to the Federal Reserve System, was writing:

"The government should guarantee to every American a minimum standard. . . . The government ought to guarantee some kind of job to every person who can work. . . . We have to have in the government a place for formulating over-all economic policies. . . . Our one chance to maintain a free enterprise system is to make it produce the standard of living a wealthy and self-respecting country should provide for its population. I believe it is desirable to do this with a minimum sacrifice of independence."

Henry A. Wallace was saying:

"The essential idea is that the Federal Government is ultimately responsible for full employment and can discharge its responsibility by planning in advance to synchronize all of its programs with the programs of private enterprise so that the whole national income will be maintained at the full employment level."

And hardly two years after the Congress had, as it thought, rubbed out the drawing by abolishing the National Resources Planning Board, on the ground that its proposed policies were either fantastic or dangerous, there was pending in the Senate a bill to implement those policies by law.

The Job Budget Bill

This is the bill cited as the "Full Employment Act," called also the "National Job Budget Bill." It was introduced by Senator Murray, for himself and for Senators Wagner, Thomas and O'Mahoney. It declares:

"All Americans able to work and seeking work have the right to useful, remunerative, regular and full-time employment; and it is the policy of the United States to assure the existence at all times of sufficient employment opportunities to enable all Americans who have finished their schooling and who do not have full-time housekeeping responsibilities freely to exercise this right."

The draft of this bill was read and revised by various executive agencies of the government. After it was introduced, Senator Murray asked the heads of the various agencies to write their opinions on it for the record.

Leo D. Crowley, Administrator of the Foreign Economic Administration said: "I am wholeheartedly in favor of the objectives sought to be obtained by the bill and the approach taken toward that end."

Claude R. Wickard, Secretary of the Department of Agriculture, said: "Your draft bill to establish a national policy and program for insuring continuing full employment is a proposal of real importance and significance."

Chester Bowles, Administrator of the Office of Price Administration, said: "Only the Federal Government, I believe, can assure the conditions under which free private enterprise can operate most effectively. I therefore strongly favor the assumption of this responsibility by the Federal Government. . . . The construction of a national production and employment budget for our economy would, I think, represent an important advance in governmental and business planning and policy determination."

John B. Blandford, Jr., Administrator of the National Housing Agency, said: "The objective of full employment sought first and primarily through the

medium of private enterprise, secondly, through public stimulation and assistance to private enterprise, and, thirdly, by useful and necessary supplementary programs financed in whole or in part by the government, is an objective upon which there is a fairly common agreement."

Anticipating the appearance of the bill, Henry A. Wallace had said: "In this session of Congress one of the first bills to be introduced will no doubt be the full employment bill, designed to carry out item number one in the Economic Bill of Rights."

This is strange history. How could Congress have known that the National Resources Planning Board would be more powerful dead than alive?—that in less than two years its Four Freedoms would be written on the banners of liberation?—that its New Bill of Rights would be a political hymn?—that a law would have been brought in to say that the policies it proposed were the policies of the United States?

Some will say the idea of a planned economy and the guaranteed life had a kind of John Brown soul. The more you might try to bury it the more it would go marching on, taking the government with it. These will point to the paragraph in which the National Resources Planning Board said: "This upsurging human personality, even in the terrible grip of war, looks for the new heavens and the new earth within its sight and grasp for the first time," and ask how you would expect people to react to a vision like that. Others, of course, will be cynical and say that all this, too, was planned; that the government itself invoked the forces that seemed to be moving it, and invoked them purposely in order to appease them. But all of that is matter that belongs to controversy. The immediate question is of another kind.

People Do Not Choose

What will this planned economy be like?

That question ought to have been asked and answered in the first place. It couldn't have been asked, or if asked, it couldn't have been answered, for three reasons; namely, first, that an outline, even an authentic outline, is not a blueprint; second, there was never any official declaration of the definite intention; and third, a planned economy is not a way of life that people debate in a rational manner or really choose for themselves—on the contrary, it may come upon them suddenly out of emergency or crisis, or in another case it may overtake them gradually and unawares, as a series of expedient solutions supposed to be temporary but tending to become permanent.

There is no answer in the name by which a planned economy may be called. The name changes. It may one day be "an expansionist policy," or the next "a full employment policy." It may be elo-

quently defined as a plan to make freedom free. There are many names for the same thing and, again, different things may be called by one name; as for example, democracy. Certainly there is no answer in the words of grand intention.

Generally the words are admirable. Even Hitler could say: "We shall abolish want; we shall abolish fear." The lyricism of the National Resources Planning Board, or that of Henry A. Wallace with his song of the common man, could be matched by Mussolini, who said:

"Fascism has gone to the people. It has mixed with the peasants, the workers, the farmers, the lower middle class; it has got into touch with the children and the young people, it has made itself the interpreter of the needs of the masses, it has attended to their political and ethical education and has organized them not only professionally and economically, but also for military, cultural, educational, and recreational needs."

One who would find the answer, therefore, must pass through all these word situations and touch the thing itself; having done that, one must compare things with things. As one does this the question becomes somewhat modified.

European Models

All the principles of a planned economy are European. There is, as Henry A. Wallace says, a kind of "common pattern," even a common "statistical lingo." It gives him satisfaction to observe, for example, that "the same line of thought contained in the Full Employment Bill is emerging also both in England and Australia." He need not have confined it to the Anglo-Saxon world, nor should he have left the impression that what is emerging here is emerging also in Great Britain, since the fact is that this "Full Employment Act" which has his enthusiastic support comes straight out of Sir William H. Beveridge's book entitled, "Full Employment in a Free Society." And so the modified question will be: What known form of planned economy will this one most resemble?

The first observation to make is that all forms of planned economy have certain things in common and alike; and of these it will be necessary to set down four as follows:

First, the government must possess ultimate and final economic power. There is no escape from the dictum laid down at this point by Sir William H. Beveridge. He says: "The State cannot undertake the responsibility for full employment without full powers. . . . Full employment cannot be won and held without a great extension of the responsibilities and powers of the State."

Second, to whatever degree that may be deemed necessary to achieve its ends, the government must control prices, production and consumption; also the distribution and use of the national income.

Third, the government must of course control money, credit, the rate of interest and the movements of capital. But that is not all. It must know how to manipulate the mechanisms of finance by a slide rule; it must use money, credit, the public debt and taxation all as instruments of social policy.

Fourth, the government must be free of what Marriner S. Eccles speaks of as "the dictates of a so-called 'sound finance.'" Sound finance, besides being a capitalistic superstition, is a frustrating principle because it limits the beneficent powers of government.

But at last, coming to the base of things, there are only two kinds of planned economy; and for all they may have, or seem to have, in common, there is yet a very simple way in which one kind may be distinguished from the other. You have only to ask: What is done with private enterprise?

In one case private enterprise is liquidated, as in Russia, and the state itself, that is to say, the government, becomes the sole or principal enterpriser.

In the other case private enterprise is controlled and directed, as in Italy under the Fascist regime; and if private enterprise is docile, obedient and cooperative it may in fact be very comfortable, at least for a while, as was undoubtedly true of the Fascist Confederation of Industrialists, which published yearly a book of praise, called the "Fascist Era," numbered according to the years of the regime, as if time began with Mussolini.

Shaving Private Enterprise

Now listen again to the voices here that expound the doctrine of a planned economy and mind particularly what they say about private enterprise. It shall be a planned economy, or a full-employment policy, based upon private enterprise.

The National Resources Planning Board spoke of the government's responsibility so to conduct fiscal and monetary policies as to foster private enterprise.

In his annual message on the state of the nation last January the President said: "Our policy is of course to rely as much as possible on private enterprise to provide jobs, but the American people will not accept mass unemployment or makeshift work. . . . We must make sure that private enterprise works as it is supposed to work. . . . During the war we have guaranteed investment in enterprise essential to the war effort; we should also take appropriate measures in peacetime to secure opportunities and for producing business expansion for which finance would otherwise be unavailable."

In his budget message the President said: "It is the responsibility of the government to insure sustained markets. Then and only then can free enterprise provide jobs."

The "Full Employment Act," called also the "Job Budget Bill," declares, "It is the policy of the United States to foster free competitive enterprise." Senator Murray, on introducing the bill, said: "It is a bill to help make free enterprise work."

Recently Mr. Wallace has become enthusiastic for private enterprise. At the hearing before the Senate committee on his fitness to be Secretary of Commerce and at the same time to control the vast lending agencies of government he said: "The American system of free enterprise is the best the world has ever known and through it we can obtain, God willing, the best that this world has to offer." He went on to say, however, that "an economy of free enterprise like ours," left to itself, does not and cannot maintain stability; violent fluctuations happen and the government must intervene to keep them from happening; and when "employment falls below a floor of 57 million jobs," it becomes a function of government to assist private enterprise to provide more jobs. If private enterprise cannot provide more jobs, the government will.

The general thesis is that private enterprise must be redeemed and saved because, after all, within its limitations it is efficient. The government therefore will foster and preserve it. The National Resources Planning Board, speaking for the government said: "We do not want to run the whole show."

The Fascist Pattern

Now by this light compare the status of private enterprise under the Fascist regime. As to that the two unimpeachable authorities would be Mussolini himself and the Fascist Confederation of Industrialists. The great Fascist document was the Labor Charter. In the yearbook entitled, "Fascist Era XV," page 39, the Fascist Confederation of Industrialists summarized the Labor Charter in these words:

"Guild economy respects private enterprise. The Labor Charter specifically states that it is only when private enterprise is lacking or inadequate that the State intervenes."

In "Fascist Era XVII," page 99, the Fascist Confederation of Industrialists said:

"To sum up, the developments of the past sixteen years show that Fascist industrial policies respect private ownership of the means of production and are founded on private enterprise conducted on a profit-earning basis, subject however to the proviso that as production is a national interest, property owners are responsible to the nation for the use they make of these means, and in the absence or proved inadequacy of private enterprise, the State steps in to supplement, regulate or replace."

And again on page 40:

"Under this Fascist system private enterprise is not suppressed but is shown the direction in which it can most profitably work in the collective inter-

est, and it plays the leading part in organizing production in conformity with national needs."

In a speech in March, 1936, Mussolini himself said:

"Guild or corporative economy respects the principle of private property. Private property completes human personality."

Little Business

Mr. Wallace is famous as champion of the common man and little business. He thinks of the little businessman as the very bulwark of an economic system. When he attacked the history of the RFC it was on the ground that it had not made enough little loans. In view of Mr. Wallace's sad habit of shouting Fascist at those who disagree with him in any point it will not please him to be reminded that Mussolini's attitude toward little business was exactly the same. On opening the National Guild Assembly, March 23, 1936, Mussolini said:

"Turning to small business I wish to make it clear that the craftsman will be assisted not only out of respect for a glorious tradition but also in view of his effective value. Small and medium-sized industry will remain the sphere of private enterprise and private responsibility, coordinated for national and social purposes."

Mr. Wallace and others—all others on the side of planned economy—declare it to be the responsibility of government to maintain an equilibrium between supply and demand on a high level, that is to say, the government must set high production goals and then guarantee an adequate demand, which means that the government will necessarily provide the people with purchasing power.

In Volume XVII of the "Fascist Era," the Fascist Confederation of Industrialists said:

"Thus the government has preserved that equilibrium between purchasing power and production which is one of the main aims of their monetary policies, and which affords the best encouragement to thrift."

The same idea.

The parallel continues. First the National Resources Planning Board, then the President himself who said it explicitly, now Mr. Wallace, and in fact all the planners, think that the government must be prepared to put public capital into private enterprise, especially risk capital. When Mr. Wallace was recently before a Senate Committee and was asked how the government could do that without increasing the public debt he said he thought it could be done by a kind of "equity" financing. A Senator asked him if he meant that the government would buy shares in private business. Mr. Wallace said he hadn't thought this all the way through. But Mussolini had.

In his speech opening the National Guild Assembly in 1936, Mussolini said:

"Will government intervention in these big industrial units be direct or indirect? Will it take the form of management or control? In some branches the form may be direct management, in others indirect, in others effective control. Another possibility is that of joint enterprise under joint management with capital subscribed both by the government and by private stockholders."

Any government assuming responsibility for the success of a planned economy must control foreign trade.

Mussolini said, in a speech opening the second National Guild Assembly: *"As regards commerce we must distinguish between its two branches. Foreign trade has become directly or indirectly a function of the State."*

To the American Bankers Association, as reported by the Associated Press, Mr. Morgenthau, Secretary of the Treasury, said: *"It has been proven so far as I am concerned that the people in the international banking business cannot run successfully foreign exchange markets. It is up to the government to do it."*

Control of foreign exchange by government is control of foreign trade.

Lending Agencies

During the bitter controversy that revolved around Mr. Wallace while his nomination to be Secretary of Commerce was pending before the Senate, many people, and indeed members of Congress, seemed for the first time to realize what enormous social and political power had been aggregated in what are called "the lending agencies" of the Federal Government. Mr. Jones, who had exercised that power for thirteen years, told the Senate Committee it could be used to destroy the very principles of the American system.

There were such lending agencies, too, in the Fascist regime and with almost the same names. The likeness at this point seems almost fantastic. In Volume XVII of the "Fascist Era," under the head of "Credit Policies," the Fascist Confederation of Industrialists wrote the history of the Fascist lending agencies as follows:

"Steps were taken to provide business with long and medium-term credit through a series of institutes of which the most important were the 'Istituto Mobiliare Italiano' (IMI) set up in 1931, followed by the 'Industrial Reconstruction Institute' (IRI) established to meet the dual need of liquidating unsound enterprises (salvaged by the government during the great depression to avoid widespread economic collapse), and the reconstruction and financing of sound business initiatives. . . ."

"To insure unified action, the 'Consortium for Subventions on Industrial Securities,' established as far back as 1914 and placed under the Bank

of Issue, has become a section of the IMI, which has also taken over the financing section of the IRI. The latter, established to meet contingent needs at a time when the economic depression was at its height, has proved a very efficient instrument for carrying out the economic policies of the Fascist Government and has been placed on a permanent basis. . . ."

"Other financing institutes operating in specific fields are the 'Public Works Credit Consortium' for making loans to provinces, communes and public work consortia, the 'National Consortium for Agricultural Improvement Credit' and the 'Finance Corporation for Agrarian Consortia,' the 'Credit Institute for Public Utilities,' the 'Naval Credit Institute,' and the 'Banca Nazionale del Lavoro,' which includes a section for providing credit to the hotel and tourist industries. All these institutes are empowered to issue debentures against loans, some of which enjoy government guarantee."

The question was: What will this planned economy be like? And that was modified to ask: What European pattern will it most resemble?

The answer begins to appear. The planned economy proposed as a new way of American life most resembles the Fascist state created by Mussolini, called also the corporate state, a totalitarian state, a guild economy and authoritarian democracy.

The Fascist Dream

There was a Fascist dream. Mussolini sold it to the people. Then private enterprise, having been obliged to accept it, made the rationalization. In Volume XVII of the "Fascist Era" the Fascist Confederation of Industrialists said:

"It is now more or less generally recognized in all countries we have lived into an age which demands a planned economy. Modern conditions, the possibilities opened up by industrial rationalization and mass production, the need of protecting home agriculture for political and social as well as economic reasons, the complications now besetting international trade, all make it necessary that supply and demand be coordinated on the national and on the international plane if we are to avoid disastrous depressions with their attendant social evil of unemployment."

For a while it worked. While it worked, private enterprise was better off. Not only was it better off, with a kind of social security for itself, but because it was willing to collaborate it enjoyed at the same time a considerable latitude of permitted freedom. "We do not want to run the whole show," said the National Resources Planning Board, meaning thereby to indicate a kind of "mixed economy," with fostered private enterprise doing all it can and the government doing all the rest. But the Fascist

regime also could have called itself a mixed economy. To the National Guild Council in 1937, Mussolini said:

"There is to be no monopoly of economic activities by the State and therefore they will not be bureaucratized. Government intervenes, as laid down in the Labor Charter, when the public interest is predominant or when private enterprise—which has limits which can only be exceeded by the political and economic resources of the State—is insufficient. . . . The Fascist State does not wish to absorb all the innumerable, varied, changing, complex manifestations of economic life, because it wishes to avoid the elephantiasis and paralysis which afflict bolshevist economy."

While It Worked

While it worked, labor was better off. The government knocked the heads of labor and capital together and made them settle their disputes in an amicable manner, which was possible because wages were rising and the standard of living, although low, was definitely improving.

While it worked, agriculture was better off. Agricultural prices were supported by the government. Swamps were drained; water was brought to arid lands. Magnificent public works appeared in a phenomenal manner—roads, hydroelectric dams, beautiful monuments—all providing employment. There was magic in it, but it was the magic of functional finance. In Book XVII of the "Fascist Era," page 58, one reads:

Speaking to the House of Deputies in May, 1938, the Minister of Finance described the exceptional means by which Fascist finance had met the emergency expenditure of the three previous financial years, amounting in round figures to 36,000 million lire. 'This had called'—he said—'for a mighty effort which leaves perplexed and almost incredulous financiers of countries whose experience is limited to that of democratic finance, who fail to realize how much a well organized and regulated government can do in securing in the economic and financial fields no less than in others results which seem to them miraculous.'

While it worked it worked so well that the original New Deal planners studied it carefully and Mussolini on his part was watching what these American amateurs did. In March, 1934, Mussolini said: "Recent forms of government intervention have been varied and contrasting. There has been unsystematic, empirical aid, given case by case as the need arises . . . another form of intervention has been the communistic with which I have no kind of sympathy. . . . The American experiment must be followed closely . . . we must wait before passing judgment on it."

It now seems incredible that the inevitable sequel was not foreseen. Even in the last phase, when it was the fatal gas of militarism only that could sustain the inflation, few would believe it, least of all the planners, with their infatuation for *functional finance* as an instrument of magic.

Functional Finance

This *functional finance* rests upon the idea that public debt is neither a burden nor a liability, as sound finance would think of it, but a generative power in itself and a means to increase the national wealth. By increasing the public debt the government creates money; money is income. Thus the national income may be increased to any predetermined point by increasing the public debt and spending the proceeds. One may say that what this amounts to is that the government creates prosperity, or the illusion of it, by issuing and distributing printing press money. But no. It is a new scientific technique. If all the government did was to print money and spend it the trick would be too crude and probably too obvious. In any case, that practice has a very bad history, going all the way back to John Law. By the new technique the government in every case prints two pieces of paper. One piece is a bond which is called collateral security; the other piece is money, secured by the bond.

In Hayek's book, "The Road to Serfdom," there is a penetrating passage on why the planning dream must end in nightmare. The hideous discrepancy between the dream and the necessities of waking reality is a tragedy for which no government ever blames itself. It is more likely to blame the people. It remembers only that its intentions were sincere. It remembers that it wanted only to do more for people by controlling their lives than people could possibly do for themselves, or ever had done, when left to control their own lives. The government does not remember that it was itself controlled by a deistic passion to convert human society into a mechanism manipulated by statistical levers, and this, after all, is the simple lustful passion for power.

Deception

But why are people so easily persuaded, even people who have cherished individual freedom? The reasons for this are probably three.

First, in time of crisis or great trouble the promises made by government are almost irresistible. The government promises to provide jobs for everyone at high wages, stability, security, freedom from worry and responsibility. Only leave it to the government and all will be well.

Second, there is never an opposite plan, because all on the opposite side are those who believe in a free economy, and a free economy cannot be

planned. Nevertheless this absence of an opposite plan enables the planners to say: "Those who are against us are destructive only; they offer nothing in place of what we propose."

Third, the planned economy is represented to the popular imagination with a systematic subtlety of deception. All of the innumerable blessings are to be conferred without price. All this and freedom too; even more freedom than before.

In *The New Republic* a few weeks ago there was a long review of Sir William H. Beveridge's book, "Full Employment in a Free Society," by Alvin H. Hansen. It was an enthusiastic review, of course, because Mr. Hansen believes in a planned economy. He helped to write the National Resources Planning Board's original outline of a planned economy. He is also adviser to the Federal Reserve Board in Washington and may be called our own John Maynard Keynes. In that review he said not one word of what would happen to personal liberties under the Beveridge plan; and this was all the more notable because Sir William himself did not shrink from the logical consequences of a *full-employment policy*. At the end of his review Mr. Hansen said: "In the United States the broad outline of an expansionist program has recently been elaborated in the already famous Murray-Wagner-Thomas-O'Mahoney full-employment bill which sets forth a National Production and Employment Budget. Any reader of Sir William's 'Full Employment in a Free Society' should at the same time make a careful study of the Murray full-employment bill."

Mordecai Ezekiel, a New Deal economist and one of the brilliant fixtures in the firmament of planned economy, duplicates that performance in *The Nation*. He writes: "Those who fear the Murray bill as 'establishing a collective society' will view Sir William Beveridge's 'Full Employment in a Free Society' with equal alarm. But all who realize the urgency of an effective yet democratic solution for this central problem of our times will find this epochal work a stimulus to clearer thought and an arsenal of arguments to overwhelm the doubters. The book has a significance for contemporary America far greater than the brief notices from England had implied. Already the father of social security, Beveridge is now firmly established as master of the whole problem of employment and unemployment."

The Law Examined

So one looks again at the "Full Employment Act." It is not long, fewer than three thousand words, and begins: "A bill to establish a national policy and program for assuring continuing full employment in a free competitive economy."

Then the declaration: "All Americans able to work and seeking work have the right to useful,

remunerative, regular and full-time employment; and it is the policy of the United States to insure the existence at all times of sufficient employment opportunities to enable all Americans who have finished their schooling and who do not have full-time housekeeping responsibilities to freely exercise this right."

In pursuance of this policy it becomes the "*responsibility of the Federal Government to provide such volume of federal investment and expenditure as may be needed to assure continuing full employment.*"

This means that the annual expenditures of the Federal Government shall equal X . How is X to be arrived at? It is quite simple.

The first question is: How much money will have to be spent for all purposes throughout the country to provide, say, 60 million jobs at high wages? In answer to that question the statisticians set down a certain figure. Then they go on to estimate the amount that is going to be spent during the ensuing twelve months by 130 million private consumers in the satisfaction of their daily wants, by private enterprise for new plant and equipment, by farmers for new barns and machinery, and by states, cities and counties for public works.

This figure is put in contrast with the one which tells how much must be spent to provide 60 million jobs, and the difference is what the government will spend. Thus X is arrived at.

Who Giveth and Taketh Away

Suppose, according to the statisticians, \$175 billion must be spent to provide 60 million jobs; then suppose that according to the statisticians all forms of nonfederal expenditure by consumers, by private enterprise, by states and cities and counties are going to be only \$125 billion. Take 125 from 175 and you have 50; and so the Federal Government must spend \$50 billion for anything it can think of, preferably of course for useful things.

However, according to the Keynesian thesis, to which all of these ideas belong, when there is not enough purchasing power in the hands of the people it is better for the government to spend money for useless work than not to spend it at all, because of what is called the "multiplier effect." That is to say, if the government pays a man wages to do useless work, he nevertheless will spend his wages and the spending of them for food and clothes and somewhere to live and recreation will make work for others. The only difference between this and pyramid building is that it takes place on a higher plane.

But there is an awkward contingency. Suppose the statisticians find that the total amount of money that is going to be spent by consumers, by private enterprise, and by states and cities and counties will be more than enough to provide 60

million jobs. There you have the incipency of a boom. What will the government do about that?

According to the bill, the President in that case "shall set forth a general program for preventing inflationary economic dislocations and diminishing the aggregate value of investment and expenditure to the level required to assure a full employment volume of production."

Now what does this wonderful ponderosity of words mean? The meaning is that when the government thinks that people are about to go on a spending spree, and knowing the economic headache they will get if they do, it will take buying power out of their hands. This it will do by manipulations of fiscal and monetary policy. The ways of doing it have been perfected. The tools are already in the hands of the government. That is what the National Resources Planning Board meant when it said: "One of the most important economic facts we have learned in the past decade is that fiscal and monetary policy can be and should be used to foster an expanding economy. We need not be afraid of our monetary system and our production machinery. We have begun to master the tools of resource management in a changing world. We have long been aware of the possibilities within this area, but we have been dominated by fear of the controls of the system."

A Minimum of Coercion

As he introduced the "Full Employment Act," Senator Murray appended a statement in the form of questions and answers. One question was what it would mean to business and agriculture. The answer was: "The bill aims at the highest level of sustained production possible under the free enterprise system, with the least amount of coercion or domination."

Another question was whether this one bill would do the job. The answer was: "No. The purpose of the bill is to bring into proper focus the wide range of legislative proposals which affect employment and which are likely to be sponsored by the administration or various economic groups. . . . Its enactment would give rise to a vastly increased amount of legislative activity."

Many more laws extending the authority of government to control and police the economic behavior of the people and to make free enterprise work as the government thinks it ought to work—and all this with "*the least amount of government coercion or domination.*"

If people will only behave as they ought to behave, according to the slide rule, and if free private enterprise will work as the government thinks it should, then of course there need not be any coercion at all. The same would be true of a penal colony.

Getting a Letter from the NLRB

THE *Labor Digest* is a monthly paper published at Indianapolis. On the front page of its February number it printed a criticism of the National Labor Relations Board, taking more or less the AFL line. A few days later the H. A. Douglas Company, of Bronson, Michigan, received the following letter:

"NATIONAL LABOR RELATIONS BOARD,
"St. Louis, Mo., January 19, 1945.

"H. A. DOUGLAS Co.,
"Bronson, Mich.

"GENTLEMEN: I am investigating a matter involving an Indianapolis publication, edited by Norman A. Zolezzi, called the *Labor Digest*. Investigation discloses that employees of your company have in the past received this newspaper at their correct addresses. Would you please advise me whether or not the subscription was paid for by the company, and, if so, when were these payments made? Since the company may not have subscribed or placed ads in the newspaper in the past few years, I should appreciate it if you would check your files back to 1937. Please designate whether payments were for ads or subscriptions.

"I should appreciate your prompt attention to this matter.

"Yours very truly,
"DOROTHY L. CRAIG, *Field Examiner*"

Evidently what the field examiner suspected was that the H. A. Douglas Company had been putting the *Labor Digest* into the hands of its employees. The H. A. Douglas Company sent the field examiner's letter to Representative Clare E. Hoffman of Michigan. Representative Hoffman made a copy of it and sent it to the National Labor Relations Board, asking how it could be explained. From the National Labor Relations Board, he received the following explanation:

"The sole purpose of the inquiry made of the Douglas company was in connection with the investigation of a charge filed by the United Furniture Workers of America in our St. Louis regional office. That charge alleges that Norman A. Zolezzi and others specifically named have engaged in and are engaging in unfair labor practices within the meaning of section 8, subsections (1) and (2) of the National Labor Relations Act by dominating and interfering with the formation and administration of Tri-State Wood Workers, Local No. 1, a labor organization, and by carrying on a campaign of vilification of bona fide labor organizations, and favoring an employer-dominated labor organization through the medium of the *Labor Digest*."

On placing these exhibits before the House of Representatives, Mr. Hoffman called attention to the compound character of the intimidation. The publisher is intimidated by the threat to attack his advertisers and subscribers, and the advertisers and subscribers in turn are intimidated by the threat to investigate their motives.

Democracy's Terrible Blunder

Cult of the Superior Rights of Inferiors

By Donald R. Richberg*

IN the midst of a world-wide struggle for human freedom, we learn the ancient truth that liberty is gained and held only by restraints upon liberty. As a free people we voluntarily give our lives and fortunes and we draft men and money for war. But military service and discipline and heavy taxes must be enforced against individual men. They cannot be left free to measure their own sacrifice.

Why do we not conscript the service of all workers in this time of war? The soundest reason is that this would require government management of practically all business, because free men and women cannot be made into enslaved workers for private masters. Of course, we might be compelled to regiment ourselves completely, and to stop free enterprise for the duration, in order to save our liberties from destruction by foreign foes. But, as a free people, we will avoid this dangerous program as long as possible.

It is disheartening, however, to see that, even during a desperate struggle for national existence, we continue to waste precious time and energy in a self-serving struggle between management and labor. Only the tremendous effort of high-minded leaders in government, and among employers and employees, has prevented this evil struggle from degenerating into widespread civil warfare behind the battlefield. A multitude of short-sighted people on both sides have no real understanding of the fact that individual freedom and free enterprise can only be preserved by those who are ready and willing to maintain order and discipline so that they can work effectively together. These quarreling people commonly expect to receive the services of others as a right, while repudiating any corresponding duty to serve others.

We hear labor voices demanding assurances of employment and a high standard of living, and claiming at the same time an unlimited right to stop or disorganize business and to enforce regulations that reduce production and actual earnings.

We hear management voices demanding a one-sided freedom to plan and control manpower as well as money power, without accepting their obligation to gain the support of government and labor, whose voluntary cooperation is indispensable.

*Donald R. Richberg has a background which could have been called liberal before that word had been stultified. He was counsel for the railway unions in the government injunction suit in 1922; co-author of the Railway Labor Act in 1926; co-author of the National Industrial Recovery Act in 1933 and chairman of the NRA Board in 1935, succeeding General Hugh Johnson.

The compulsions of wartime have only suppressed this rancorous dispute. They have not provided for its solution or even for a substantial moderation. *There is a clear prospect that the home-front armies will mobilize and march against each other as soon as the war of liberation is won.*

At the moment, I would suggest that we try to look behind the worried faces of managers and workers, behind the disagreements, the hatreds, the schemes and ambitions of individuals, and try to see what there is in common thinking, in popular ideas, that is driving these men apart. There are times when a common emotion, a clear recognition of common interest, brings men together in a wonderful harmony of thought and action. There are times when all emotions and self-interest seem to drive men apart. What is the bad idea that has taken control of our labor relations?

Now that we have the economic ability to end so much suffering and sorrow that for centuries have seemed inevitable, now that such a great advance in health and happiness could be achieved by so many people, why do we keep turning away from working together and spend more and more time fighting one another?

There may be many answers to this question. But I would ask you now to consider one which is neither common nor popular, but which is worth your attention.

A FEW streams of unsound thinking have risen and flowed together in recent years to make a great, swollen river of bad ideas that threatens to flood and devastate this land of ours. Out of the original concepts of freedom, equality, and justice have developed demands for

- (1) freedom without responsibility;
- (2) equality regardless of fact; and,
- (3) justice as absolution for sin.

These demands coalesce in a cult which has many devotees and which can be fairly described as the cult of those claiming *superior rights for inferiors*.

This statement may arouse antagonism—by its apparent assumption that some persons are superior to others, and that apparently the speaker regards himself as a superior person! This sounds like Nazi philosophy. The fact is that the Nazi—or Fascist—claims of superiority and the rights of a master race have produced a strong reactionary swing to an equally insane line of thinking. According to this new doctrine, since all persons must be regarded as

equal, those who are in obviously inferior positions must be given superior rights so that they can maintain their claimed equality with their actual superiors.

Equality

1. Let us have a few moments of sane discussion of "equality."

If this is to be "the century of the common man," let us understand whether we intend to glorify the common man by enlarging his opportunity to advance himself, or by preventing any uncommon man from achieving more than mediocrity.

No one has ever been fool enough to claim that all persons are equal in mental or physical power. Every shade of brain power from imbecile to scientific genius, every variety of muscular skill from clumsy plodder to deft mechanic or agile athlete, provides proof positive of inequalities in capacity. But there is a democratic principle of equality of opportunity which is sane and logical. The whole virtue of this principle is: *Let inequality be demonstrated and determined as a fact.* Do not impose an artificial inequality by law, either as a birthright or a special privilege. The purpose of "equality before the law" is not to create or maintain a fictitious equality, but to establish social and economic *inequalities* on the basis of genuine differences.

How absurd to compete for prizes and then take them away and deny credit to the winners so as to maintain the silly pretense that all contestants were equally good!

The claim of a "master race" or a "superior people" is fraudulent. Biological and anthropological science, and historical knowledge, prove the claim a fraud. But some individuals are superior; and it is entirely reasonable to claim that some communities or nations are, as a whole, superior to others, as a whole. Of course the claim may be disputed. But faith in oneself and one's companions is essential to progress. We must believe that in some ways our course and our results are better. Otherwise thinking and planning become sterile.

Then there are inequalities of position which give at times superior rights to persons who may be inferior to their subordinates in a hundred ways, but whose temporary superiority of position must be recognized. The traffic policeman has a superior right to tell you where and when to move. The salesman, behind his counter, has a superior right over the customer. He is in control of the goods and the cash register. The works manager or the foreman has a superior right over the wage earner to direct what work shall be done and how and when.

None of these superior rights makes the other party inferior except to the extent that he is actual-

ly in an inferior position. The automobile driver is only subject to the policeman's orders when he comes within the sphere of his authority. The customer is only inferior to the salesman on one side of the counter. The worker may have equal or superior rights in bargaining, in fixing the terms of his employment. But the management must have, and be free to exercise, a superiority in bossing the job. To give the inferior position a superior right of control is worse than wrong. It is ridiculous.

Freedom

2. Now consider "freedom." Real freedom isn't an absolute right. It is the *product* of self-control. The "freedom" of an irresponsible person is like the liberty of a child. It can be only a strictly limited freedom, regulated by a superior who accepts responsibility for the child's conduct and welfare. When a people seek liberty without self-discipline, only a paternalistic, tyrannical government can take care of them.

Justice

3. Justice for all people does not include forgiveness of wrongdoing. If no one paid a penalty for wrong, there would be anarchy and increasing rewards of evil. If only *some* are forgiven, that means injustice to those who *are* punished. There must be rules of penalty and compensation for wrong which *are enforced* universally. A modern tendency to find social responsibility for all bad conduct is a denial of justice to the law-abiding. This does infinite harm to weak, anti-social persons. They are encouraged in wrong—just as doles encourage idleness.

(1) We have gone too far in seeking unearned "freedom," because of the persistence of tyranny.

(2) We have gone too far in seeking unearned "equality," because of the persistence of oppression and inherited handicaps.

(3) We have gone too far in seeking unearned "justice," because of the persistence of so much avoidable injustice.

But, now we are facing the great evils of an attempt to establish an all-responsible government for an irresponsible people. It simply cannot be done. A perfect example of this vain effort is provided by the present confused relations of government, management and labor.

FOR many years, labor leaders sought to restrain the autocratic powers of management by creating a counteracting or balancing power in labor unions. The main effort was to build up the economic strength of organized men to equal the economic strength of organized money. In this

struggle, government for a long time gave potent aid to management, because of the public duty to preserve law and order and to protect property rights.

Then organized labor began to mobilize its political power—the voting strength of the masses. Government became the ally of the workers and an active force to restrict and weaken the economic power of management. *Right here began a major blunder in public policy.* The creation or the grant of power without corresponding responsibility is an economic or political sin. Any sound plan for economic or political progress must avoid this evil.

A glaring weakness in our capitalist economy had been the irresponsible power of organized money. As the minor power of a millionaire had grown into the major power of a billion dollar corporation, there had been no corresponding increase of social obligations. Yet self-preservation *did* impose upon this money power a strong interest in order and discipline and a moderate, even though a secondary, interest in the general welfare.

But, when government lent its great aid to increasing the economic strength of the workers, it tolerated and actually encouraged a private interest in disorder and disregard for the general welfare. It created and sustained a legalized right in the workers to disorganize production and distribution as the way to self-advancement. Management was not merely forbidden to interfere with labor organization, but was made legally helpless to boss the job and to insure the fulfilment of the public duties of private enterprise.

As a result, in order to meet its own obligations to the general welfare, government was forced constantly to intervene as a peacemaker between the fighting forces of labor and management. Finally, in a time of war, government had to *beseech* the workers and to *order* the managers to work together in order to furnish essential supplies to the defenders of the nation, fighting against foreign enemies.

THE present weaknesses in our political economy flow largely from this major blunder in public policy; our failure, as a government, to require that

a legal obligation to serve the general welfare shall always rise to the level of any legalized power to affect the general welfare. This blunder has been partly canceled in time of war by a temporary assertion of the supreme authority of military command. But, when military authority ends and only civil authority remains, we shall face the urgent choice between an impotent government bewailing the civil warfare which has been encouraged by the great blunder, or a strong government which, regardless of Sewell Aveyrs and John Lewises, will assert the supremacy of law and the public interest over the self-serving aggression of any government-defying private interest. (The motives of an Avery or a Lewis, however lofty, do not alter the fact that defiance and obstruction of constituted authority is a revolutionary act.)

Of course any government will be denounced as Fascist or Communist or reactionary or radical, which demands that the law and the general welfare shall be upheld regardless of selfish demands for anarchistic freedom, fictitious equality and sentimental justice.

The cult of "Superior Rights for Inferiors" has many followers. Time-worn ideas of self-reliance, self-support and self-discipline do not appeal to a multitude of shirkers and leaners and borrowers and illiterates who cast their ballots in favor of the seductive program: "Let somebody take care of me today and let somebody else worry about tomorrow."

Demagogues may lead astray a host of weak-minded persons with the claim that democracy should bring to the masses an irresponsible freedom, an artificial superiority and a preferential justice. But I am confident that this idiot's dream will never become a dominating illusion in America. I believe that the majority of the American people are still faithful to the ideals of freedom under law, equality of opportunity, and justice without fear or favor. In that faith, the home-front battle after the war should be won by those same idealists upon whom the whole world must rely for any lasting victory in the world-wide war of liberation.

ECONOMIC dictatorship is much more dangerous than people believe. Once authoritative control has been established it will not always be possible to limit it to the economic domain. If we allow economic freedom and self-reliance to be destroyed, the powers standing for liberty will have lost so much in strength that they will not be able to offer any effective resistance against a progressive extension of such destruction to constitutional and public life generally. And if this resistance is gradually given up—perhaps without people ever realizing what is actually going on—such fundamental values as personal liberty, freedom of thought and speech and independence of science are exposed to imminent danger. What stands to be lost is nothing less than the whole of that civilization that we have inherited from generations which once fought hard to lay its foundations and even gave their life for it.—*Gustav Cassel, Swedish Economist.*

Labor Meets the Boss in a Doghouse

By Ralph Chaplin

A new voice is speaking for organized labor in the West. Ralph Chaplin was once a member of the IWW and led the lumberworkers of the Pacific Northwest in many bitter struggles. Later he turned to writing and was editor of several labor papers, including the Voice of the Maritime Federation, which was purged by Harry Bridges and the Communists when the CIO captured the maritime unions on the West coast. He now is editor of the Tacoma Labor Advocate and "The Voice of Labor" on the radio programs of the Tacoma Central Labor Council. Together with Roderic Olzendam of the Weyerhaeuser Timber Company he helped to organize the famous Tacoma Round Table at which labor and management meet to act on their joint problems. Recently he has startled and thrilled such bodies as the Intermountain Executives' Conference, meeting at Salt Lake City, and the Seattle Executives' Conference, meeting at Seattle, with speeches on the general theme that labor and capital are both in the doghouse, and that if they do not stand together to defend a common heritage they may find themselves associating behind one barbed-wire fence. What follows is not one speech but an abstract of several.—Ed.

LABOR is in the doghouse. Granted. And the NAM is in the doghouse. All employers who sign paychecks are in the doghouse. Well, we aren't going to find any way of working out problems by remaining in our respective doghouses. Maybe what we need is one big doghouse. Maybe that's what we'll get, if we don't wake up, with barbed wire around it—like they have for free labor and free enterprise in Europe.

* * *

The people who have put us in the doghouse and are smearing us intensively right now are the ones who put you gentlemen in the doghouse and who are smearing you—intensively.

* * *

Labor unions are here to stay. Collective bargaining is here to stay. The men at the point of production and the men who sign the paychecks are both here to stay. And the free enterprise system is here to stay. But the thing that opposes us, now, is a power greater than either one of us. It is not a local thing. It is not merely a national manifestation. It is world-wide and that trend isn't in the direction of private enterprise. It is in the direction of collectivism, of sovietization. It is in the direction of the negation of all freedom.

* * *

There is a lunatic fringe of labor and there is a lunatic fringe of the employers. The lunatic fringe

of labor is playing into the hands of a possible dictatorship in this country, totalitarian in structure, just as the lunatic fringe of the employers is doing. The best way to get communism or fascism in this country is for management and labor to be trapped into a battle royal.

* * *

Take Mr. Avery, for example: I have heard labor people just lean back and laugh; they thought that was a huge joke on the employers—just lovely. I know of businessmen who didn't exactly shed any tears. Some of us have a different idea about that incident: If they can dump Mr. Avery on the sidewalk in front of his building yesterday, they can do it to you fellows today, then they can come over to the Labor Temple and dump us out tomorrow.

* * *

I have been in the labor movement since 1904. If I made mistakes, and others like me in the labor movement, in doing the things we have done, I am frank in admitting that if I had to do those things over again, all things being equal, I would probably do them just the same way again. If I am making a mistake now, in reaching out to the employers for a more rational and more American way of adjusting our relationships, settling our differences, if I am making a mistake now, I am proud of that too, and I will keep on doing it over and over again until I have proved to myself, to my own conscience and understanding that a conference table isn't a whole lot better than a picket line, better than pick handles, better than tear-gas bombs, better than killing, shooting and violence.

* * *

When we can't get together, we can fight it out. But let it be a clean fight.

* * *

When I mentioned that a political campaign isn't going to settle it, I had in mind calling your attention to a thing that I have seen, things that I have learned, as the result of intimate, close-up study and actual experience with some of these forces working for the disruption of the American Labor movement. I worked for Harry Bridges, you know—in San Francisco. You wonder why it was that Sydney Hillman could walk into the Democratic Convention in the City of Chicago and come within a hair's breadth of taking it over. Why? There is one word for it. Not "propaganda"—"organization." There's plenty of propaganda and it's a lot smarter than yours, gentlemen; but that isn't the secret of communism's power. That secret is highly efficient organization.

If labor rests its case on propaganda, labor won't get to first base. If the employers of the NAM, or Chamber of Commerce rest their case on propaganda, they won't get to first base, either. There is only one thing that will do it and that is organization. Look into the background of the American Labor Party, out of which the Communist-CIO Political Action Committee grew. Check on the type, the structure of the organizational machinery that was used to make that high-pressure blitzkrieg possible.

* * *

This thing that we are trying to do must be organized, it must be organized on the basis of our personal responsibility. In the City of Chicago, there are between forty and fifty Communist labor schools, where young men and women learn parliamentary procedure, public speaking, labor journalism, all the tricks of the trade—infiltration, boring from within, disorganization—and they are turning out highly trained specialists in their field. There are such schools in every big American city. They are training young Americans to be the termites and stooges of international communism. Are we training our youth to go out and spread flaming Americanism to our people?

* * *

Take that Browder-Hillman outfit. They go to Chicago and blitzkrieg a political convention. When they get through they go into bull session and reach an understanding among themselves. Then they proceed to blitz the whole U.S.A. They were organized; the rest of us aren't. They have solidarity. You hit one of them and you make enemies of all of them. That is gangster solidarity. The lower you go and the more you penetrate into the alien-minded dregs of life in our big cities, the more you find that type of organization.

* * *

Vile things can function efficiently, and the good things can't because they don't organize. Good citizens won't even organize to survive. It isn't a question of Right forever being on the scaffold. The reason Right is on the scaffold is because Right isn't organized and the hangmen are. Sidney Hillman is holding the rope for the proletariat. Earl Browder is holding the rope for the bourgeoisie. That includes both of us.

* * *

When a hold-up man comes to you and says "Give me your money or your life," you are going to give him your money to save your life. Well, the fellow who is after your hides and the hides of labor is asking more. He is demanding your money *and* your life. He wants you first, then us. We have had a swell time talking these things over here today. Hope we don't talk them over some other day in a concentration camp, trying to figure out what happened to us. Don't think that is impossible. The

statists arrayed against both of us are playing marbles for keeps. It is going to be a finish fight and in that fight somebody is going to win and somebody is going to get whipped. If we get whipped, America gets whipped with us.

* * *

I come from Tacoma. Some of the bitterest struggles in the labor movement have centered around the Puget Sound area. I am not going to go into that. I want to call your attention to what happened when we were faced with World War II in Tacoma, just briefly. We had two alternatives. The choice had to be made. Did we want to go back to civic disorder, strikes, industrial dislocation, work stoppages, violence and more tear gas? Or did we want to try to work out something better. Labor did. Why? I don't know unless you add it up in terms of what labor has learned since World War I.

* * *

We wanted to get together with the employers to talk things over. But it was hard. Do you know, gentlemen, how difficult it is for a labor man to be seen anywhere near the office of the Chamber of Commerce or to be seen walking on the same side of the street with a member of the NAM? "Chamber of Commerce," "employer," those are smear words, like "profits," "dividends," "corporations." You can name the big corporations and they are smear words, right now, in the papers and over the air.

* * *

In Tacoma we knew the employers; they knew us. We made a wonderful discovery by accident. We discovered that the employers wanted to do the right thing in the interest of the war effort as much as we did. They didn't dare to approach us and we didn't dare to approach them, but we did get together.

* * *

In Tacoma, we sat around our first conference table rather awkwardly; here with the men who had held the whiphand over labor and fought labor's effort to organize, but when we looked at them, they weren't such bad fellows, they had American names and American faces, but they were tough and we were tough. We had taken them on in the past and hadn't always come out second best. We weren't altogether afraid of them or they of us. They were ready to fight at the drop of the hat, and so were we, but neither side wanted to do it. One of our boys says: "Don't be embarrassed, gentlemen, it hurts us as much to be here as it does you."

* * *

And, we did another thing,—and let me assure you, that was important—we both admitted that we had made mistakes. We went back to the old days, in our minds we reviewed lots of things that

had happened, on the employers' side and on the side of the unions. On our side of the round table were men who had been tear-gassed and beaten up, men who had issued their challenge of defiance in the very teeth of the employers. These were the men that had built up the unions, in spite of the efforts of the employers and NAM and all that; they were there. So were the other fellows.

* * *

As the war emergency developed, our joint responsibility became greater and greater. There were problems in the tide flats, problems out in the yards, problems on all sides. Heretofore there was no joint way of solving a joint problem. What a relief it was to sit around the table and to talk things over. The matter of war production, uninterrupted production, was first. Our strike record, I believe, is most creditable on the West coast. I believe it will set a goal for any industrial community. I have the actual figures: Since 1942, loss of man hours due to strikes in Tacoma has gone down 92%, whereas in the nation as a whole it has gone up 103%. There has been no trouble. We have nipped it in the bud in the interests of our community, in the interests of our country. When problems came up, we whipped them one at a time.

* * *

There are two schools of philosophy in the world; there are two trends of thought throughout the world generally. The trend on one side is to adopt the class-struggle point of view—that although we are a nation living under one Constitution, a definite Bill of Rights, although we have much in common as citizens of America, still we will never be able to compose our differences. That is one philosophy, one trend—but I am here to present the other.

* * *

The American Federation of Labor, with all its shortcomings (I know what they are, and I don't need Westbrook Pegler to remind me), is still the best bet as far as collective bargaining is concerned. At least it is American and it is still an economic, rather than a political organization. I know the American labor movement. If you don't have a free American labor movement, one representative of our American institutions and ideals, you are going to have the other sort of thing, one that is not headed in the direction of anything free or anything that is American.

* * *

The industries had to be built up the way they were built up, or they wouldn't have been built up at all. They had to be built up the hard way, lumber, mining, all those. It took the aggressive, dynamic element of our people to go out and build these industries up to serve our people and our

country. It wasn't done ethically, it wasn't done nicely, but it was done. In order to build up the labor movement it took a similar people, men who laid the foundations for the American labor movement. Don't forget that it grew, the part that is definitely and unmistakably American, grew out of this good, clean soil out here in the West. It didn't derive from any European or semi-Asiatic ideology.

* * *

Those of you who have ever flown over any section of the United States have looked down and seen the kind of country we have. You view the perspective from the clouds and you wonder what kind of crops are growing in those little green spots down there, what kind of trees there are in the areas you recognize as forest land, what kind of men and women and children that soil is going to produce, what kind of leadership, what kind of ideals. I am not trying to sell you a bill of goods on America. I am not just waving a flag. I am convinced in my heart that American labor is just as fundamentally clean and that management is just as fundamentally clean as any other clean thing that grows out of a clean soil of our America. All we have got to do is to brush aside the imaginary, largely imaginary differences that have been overstressed and overplayed and overemphasized, sometimes with malice aforethought.

* * *

Labor wouldn't be talking with management today or trying to effect a more efficient method of ironing out problems, keeping this thing steady as she goes, if labor were sold on the idea of the class-struggle philosophy. You have got the mechanics of the thing straight. On one side is our traditional concept of government, the Constitution and the Bill of Rights, the legislative, judicial and administrative branches of our government. Implicit in this setup you have free enterprise, that controversial thing called "free enterprise." Put it in quotes, call it anything you want, it is still American. And free enterprise is under fire. So are the other things I mentioned. I don't mean in the United States of America, but throughout the world. On the other side is state socialism; the "new order"—regimentation for everybody. We must choose.

* * *

We want to keep our ideals and institutions. We want to remain free. It is in the nature of things that we are either going to remain free or go down swinging, just as our forefathers did. Like them, we acknowledge one God and one Savior. We speak with one tongue and honor one flag. We owe it to Almighty God, we owe it to our country, to our forefathers who made this free country and its free institutions possible, and we owe it to our children,

and to generations of Americans yet unborn, to pledge all that is added up and all that is implied in the words, "I am responsible."

Into every speech he makes, Mr. Chaplin reads the Labor Pledge that is promoted through his paper by the Central Labor Council of Tacoma and has been signed by more than a million unionists. It reads as follows:

"The Pledge of an American Labor Unionist.

I AM A CITIZEN and a member of organized labor in the State of Washington and in the Republic of the United States of America.

"As in bygone days, millions of my fellow countrymen fight and suffer and die to save the freedom of that citizenship and that membership. Because I enjoy these priceless American privileges, I have clear and definite obligations which it is my bounden duty to fulfil.

"As a citizen, I am responsible for the quality of government in my town, county, state and nation. I inform myself fully about candidates who are to represent me and my point of view and about issues. Then I register and I vote in the local primaries and in the local elections first, because I believe in local self-government. Then I vote for state and national officers.

"As a member of organized labor, I am responsible for the strength of my union, one of our basic American institutions. I know that the organized labor movement, through the mechanism of collective bargaining between representatives of labor and representatives

of private employers, is responsible for my hours, wages and working conditions. I will not now walk out on the men who have honestly and faithfully labored for half a century to build up collective bargaining between private employers and employees in America. I am responsible for attending well-planned union meetings regularly. I will take part in the discussions and I will vote on every issue.

"I am responsible for building up the solid constructive power of my union in the New Postwar America which is beginning to emerge. Looking ahead I know that without continuous production there can be no employment, wages, products and dividends to distribute regularly. I know that any action which impedes production on the part of either capital, labor, farmers or government harms all. I know that every action that encourages production helps me and each other person in these groups.

"I am responsible for voting to continue and strengthen those measures that keep industry, commerce and agriculture free, competitive and progressive and to vote against those measures that hold industry back from offering the largest possible number of steady jobs through steady production.

"If I do any less, I cease to be a citizen of the United States and a member of organized labor in spirit. I become irresponsible and demonstrate my ingratitude for the sacrifices made for my citizenship for the past 169 years and for the unflagging efforts that men have made for half a century to build up a strong, productive, cooperative, progressive labor movement in my state and nation. *I AM RESPONSIBLE.*"

The Ten Bridgeheads of Marxian Strategy

WE have seen that the first step in the revolution by the working class is to raise the proletariat to the position of ruling class, to establish democracy.

The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the state, *i. e.*, of the proletariat organized as the ruling class; and to increase the total of productive forces as rapidly as possible.

Of course, in the beginning, this cannot be effected except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

These measures will of course be different in different countries.

Nevertheless in the most advanced countries, the following will be pretty generally applicable.

1. Abolition of property in land and application of all rents of land to public purposes.

- 2.** A heavy progressive or graduated income tax.
- 3.** Abolition of all right of inheritance.
- 4.** Confiscation of the property of all emigrants and rebels.
- 5.** Centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly.
- 6.** Centralization of the means of communication and transport in the hands of the state.
- 7.** Extension of factories and instruments of production owned by the state; the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.
- 8.** Equal obligation of all to work. Establishment of industrial armies, especially for agriculture.
- 9.** Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of the population over the country.
- 10.** Free education for all children in public schools. Abolition of child factory labor in its present form. Combination of education with industrial production, etc.—*From the Communist Party Manifesto by Karl Marx and Friedrich Engels, year 1848.*

Books

Full Employment by Compulsion

FOR innocents of the middle class in the Anglo-American world the frail gaunt figure of Sir William H. Beveridge is a kind of pied piper. He beckons to them and they follow him, down a path that leads to their ultimate happy extinction by a gentle process of euthanasia. His power is in itself a complex social fact. He is not a great thinker. He is a tiresome writer. Only those who suffer from a sense of duty ever read his interminable reports to the end. Nevertheless, he played the weirdish tune for Great Britain's sudden resolve to put herself forth on what she herself called the "uncharted sea" of a planned economy. A stranger fact follows. The Murray-Wagner-Thomas-O'Mahoney "Full Employment Act," called also the "National Job Budget Bill," supported by all the Wallace forces now pending in the American Congress, comes straight out of his latest book*. You will find it there on pages 30, 135, and 136, as follows:

"The type of budget required for full employment is new in comparison with the budgets of peacetime: it is not altogether new if compared with what happens in war. . . . What is the essence of this new budgetary policy? It is that the budget is made with reference to available manpower, not to money; that it becomes, in Mr. Bevin's phrase, a 'human budget.' . . . The novelty of the new type of annual budget will lie in two things: first, that it will be concerned with the income and expenditure of the community as a whole, not only with public finance; second, that it will take the manpower of the country as a datum and plan outlay to that datum rather than by consideration of financial resources."

Sir William is a master euphemist, substituting always for the harsh word one that is mild or vague. He likes to define a thing by saying what it is not. He could rewrite the Ten Commandments to make them seem like a temptation to be good. He does not talk of a planned economy; his theme is full employment. This book, which he calls also a report, is entitled, "Full Employment in a Free Society." The effectiveness of the title is from the fact that it obtrudes a conclusion—the conclusion, namely, that you can have both full employment under a planned economy controlled by the government and at the same time a free society. Who would say no to that? But it develops as you read on that in this free society only essential liberties are to be preserved. Indeed, everything "depends on the list of essential citizen liberties." The list goes to eight, as follows: freedom of worship, freedom of speech,

*"Full Employment in a Free Society," by William H. Beveridge, W. W. Norton & Company, Inc., N. Y.

freedom of writing, freedom of study, freedom of teaching, freedom of assembly and association, freedom to choose one's occupation, and freedom to do what one likes with one's own income. Then he says:

"The list of essential liberties given above does not include liberty of a private citizen to own means of production and to employ other citizens in operating them at a wage. Whether private ownership of means of production to be operated by others is a good economic device or not, it must be judged as a device. It is not an essential citizen liberty in Britain, because it is not and never has been enjoyed by more than a very small proportion of the British people."

At this point Sir William has the courage to accept the logical consequences of a planned economy. But imagine if you can a free society in which the individual has no inalienable right to own means of production and to pay wages. By the same line of reasoning—that after all this is not an essential right because only a small proportion of people do own means of production—you are bound to arrive at the doctrine that no individual has a right to possess anything that is not equally possessed by all. Communism has no further extreme; and yet the word communism does not once occur in the index and is taboo throughout the book.

Sir William says he does not involve himself in the controversy between capitalism and socialism:

"The policy of full employment outlined here is a policy of socializing demand rather than production. It attacks directly the central weakness of the unplanned market economy of the past—failure to generate steady effective demand for its own products. It makes possible the retention of competition in meeting social demand. It makes possible the retention of private enterprise to discover and develop the best technical methods of production, so long as private enterprise appears to be the most efficient agency for that purpose. At the same time it does not block the way to socialization of production in general or in any particular industry. It is a policy of doing what must be done under any economic system which aims at full employment, namely the adjustment of total outlay to the datum of manpower. That has to be done, and it can be done, whether production itself is socialized or not. It could be done in a United States which remained capitalist as in a Soviet Russia which was wholly collectivized or in a Britain which took a middle course. Nationalization of the means of production in every industry would not be an alternative to the policy of insuring outlay for full employment; it would only change the conditions under which that policy had to be pursued. Nationalization of particular industries may be useful as part of this policy, but is even less of an alternative to it; the adjustment of total outlay to total manpower is meaningless, except as a global policy covering the whole of industry.

He concedes, however, that he may be wrong about this. He believes that "full employment is in fact attainable while leaving the conduct of industry in the main to private enterprise." He is at least willing to suppose it. Then he adds: "But if, con-

trary to this view, it should be shown by experience or by argument that the abolition of private property in the means of production was necessary for full employment, this abolition would have to be undertaken."

As for himself, he thinks he has no preference for a totalitarian system, provided the ends in view may be gained without it. Yet in a wistful way he says:

"In all the respects named and possibly in some others, the problem of maintaining full employment is more complicated in a free system than it would be under any totalitarian regime."

And again:

"In a totalitarian self-sufficing community the qualitative adjustment of demand and supply is simple. . . . In a free community the problem is more complicated in proportion to the degree of freedom and independence which it is desired to preserve for the citizens."

Totalitarianism being the easier way, and every degree of freedom tending to obstruct the ends in view, what may one guess as to the probable course of a planned economy? Will the degree of totalitarianism tend to rise as freedom yields, or will the degree of freedom tend to rise as totalitarianism gives way, making everything harder and more complicated?

If there is any doubt about it, you may find the answer in what happens to one of Sir William's essential freedoms, or, that is to say, what he does to it himself as the necessities of his planned economy evolve. The private citizen, he says, must be permitted to do what he likes with his own income. This he calls "freedom of the management of personal income." He speaks of it several times as an essential freedom; he rejects rationing, "which forbids the free spending of personal income." But under stress of necessity to make the plan work this freedom turns out to be provisional. People will be free to do what they like with their own money only provided they like to spend it wisely.

To understand why this is necessarily so one must see clearly what the plan is. It begins with the proposition that the State "can raise the total demand for labor to any desired point." How? Simply by "incurring expenditure." By spending enough money "the State can make certain that there is always a demand for labor exceeding the supply of labor." Therefore, "the ultimate responsibility for seeing that outlay as a whole,"—taking public and private spending together,— "is sufficient to set up demand for all the labor seeking employment," must rest upon the State. Why upon the State? Because it is only the State that has the power; because it is only the State that has unlimited financial resources; and because "there is no financial limit to spending by the State within its own borders, as there is a financial limit set by

their resources and their credit to spending by private citizens."

But when the State, out of its infinite financial resources, by its own spending, has put into the hands of people an amount of buying power equal to the utmost they can produce, thereby creating full employment, certain wicked problems arise, not out of the plan itself, which is perfect, but out of the perversities of human nature. What people choose to do with their money may be either unintelligent or foolish. For one thing, they may save too much. That would defeat the plan. Again, they may invest it in the wrong things, and in doing that they would thwart the scientific intentions of the economic general staff. Worse still, as Sir William admits:

"The additional citizens' outlay might not be directed to those forms of consumption which were socially most desirable; it might go to luxuries rather than to the necessities—good food and good housing. In a free market economy, consumers can buy only that which is offered to them, and that which is offered is not necessarily that which is of most advantage to them. It is that which appears to give the best prospect of profit to the producer. In a free market economy under pressure of salesmanship the Negroes of the southern states of America have, to a large extent, obtained automobiles and radios and have not obtained good housing, sanitation and medical service. In the free market economy of Britain under pressure of salesmanship the citizens have devoted appreciable parts of their increasing resources to funeral benefits of little social importance furnished at excessive cost, or to the waste of football pools and other frivolous amusements."

Seeing this, Sir William arrives with no painful accident at the conclusion that if the State "assumes the responsibility to insure sufficient total outlay for full employment, it must concern itself also with the direction of that outlay." The State, he says, "cannot escape ultimate responsibility for the general direction of outlay by reference to social priorities. . . . The State cannot undertake responsibility for full employment without full powers."

From this conclusion he does not go back and delete from his list of essential freedoms the right of the individual to spend his income in any way he likes; he does not modify it in the least. He continues, in fact, to refer to it as an essential freedom. Yet, it is clear that the individual may spend his own money as he likes, only provided he likes to spend it according to a scheme of "social priorities" imposed by the State. Frivolities and luxuries will be rationed, not because the private citizen cannot afford them, but because beyond a certain point they become socially undesirable forms of consumption; and apparently, since funerals are of little social importance and may be called wasteful if people spend too much money on them, there will have to be a kind of OPA ceiling on the cost of

(Continued on page 90)

"THE ROAD TO SERFDOM."

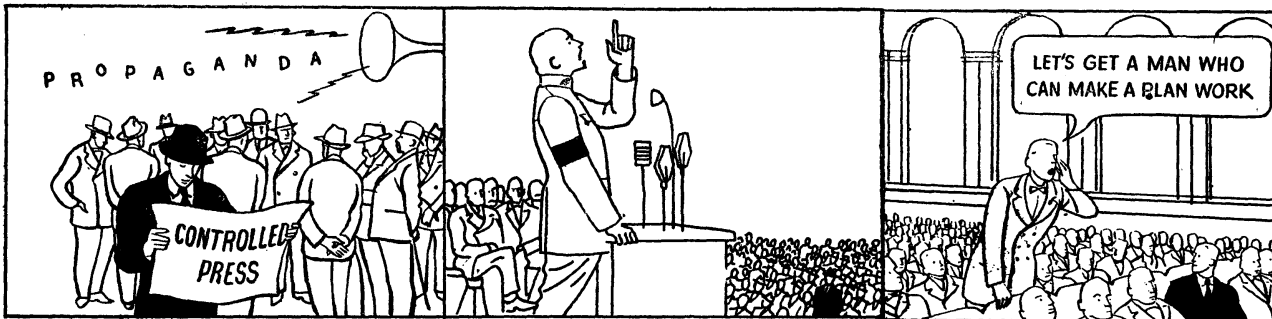
REPRODUCE!



1. War forces "national planning"
To permit total mobilization of your country's economy, you gladly surrender many freedoms. You know regimentation was forced by your country's enemies.

2. Many want "planning" to stay
Arguments for a "peace production board" are heard before the war ends. Wartime "planners," who want to stay in power, encourage the idea.

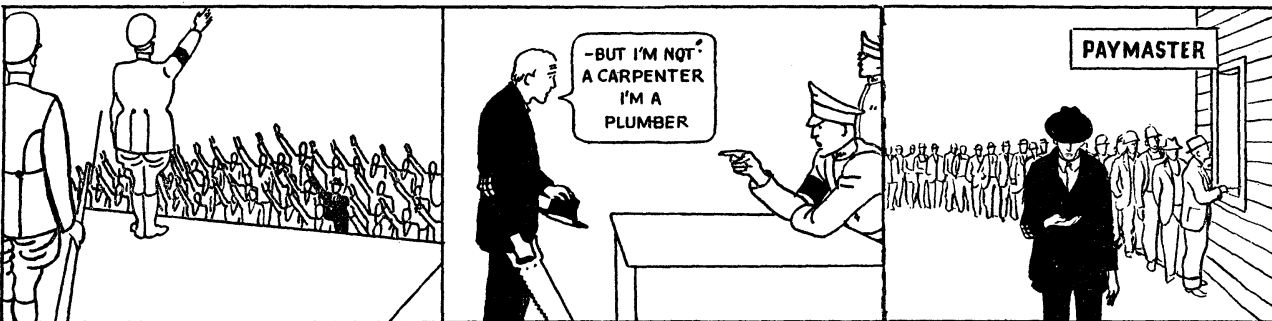
3. "Planners" promise Utopias . . .
A rosy plan for farmers goes well in rural areas, a plan for workers popular in cities—and so on. Many new "planners" are elected to office.



7. They try to "sell" the plan to all
In an unsuccessful effort to educate people to uniform views, "planners" establish a giant propaganda machine (which coming dictator will find handy).

8. The gullible do find agreement
Meanwhile, growing national confusion leads to protest meetings. The least educated, thrilled and convinced by fiery oratory, form a party.

9. Confidence in "planners" fade
The more "planners" improvise, the more normal business is upset. All suffer. People now feel—rightly—that "planners" can't get things done.



13. No one opposes the leader's plan
It would be suicide; new secret police are ruthless. Ability to force obedience always becomes the No. 1 virtue in the "planned state." Now all freedom is gone.

14. Your profession is "planned"
The wider job choice promised by now defunct "planners" turns out to be a tragic farce. "Planners" never have delivered, never will be able to.

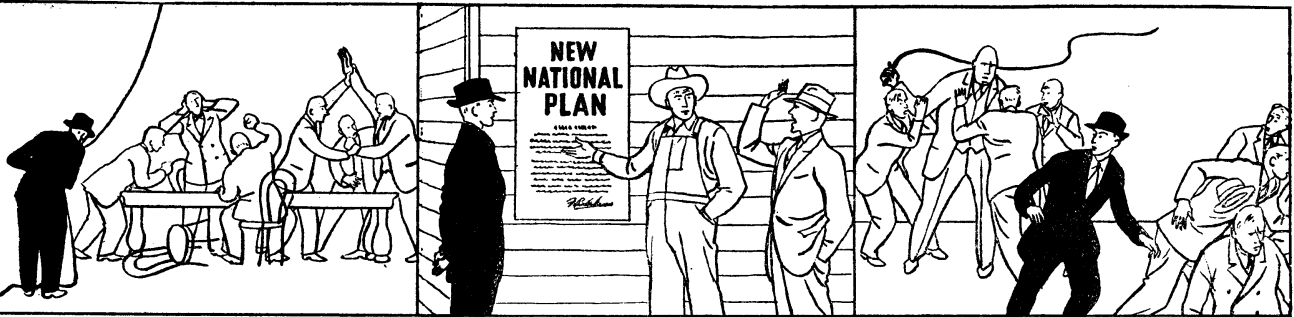
15. Your wages are "planned"
Divisions of the wage scale must be arbitrary and rigid. Running a "planned state" from central headquarters is clumsy, unfair, inefficient.

Look is a picture magazine with a wide popular circulation. F. A. Hayek's book, "The Road to Serfdom," is not popular reading. It is a scholastically written and very carefully reasoned attack upon the doc-

trine of planned economy, which, as Hayek undertakes to prove by logic, is bound to find its sequel in some form of the totalitarian state, and the end is tyranny. Instead of planning to control the economic affair, he

A BOOK REVIEW IN CARTOONS

FROM LOOK



4. . . but can't agree on ONE Utopia
With peace, a new legislature meets; but "win the war" unity is gone. The "planners" nearly come to blows. Each has his own pet plan, won't budge.

5. And citizens can't agree either
When the "planners" finally patch up a temporary plan months later, citizens in turn disagree. What the farmer likes, the factory worker doesn't like.

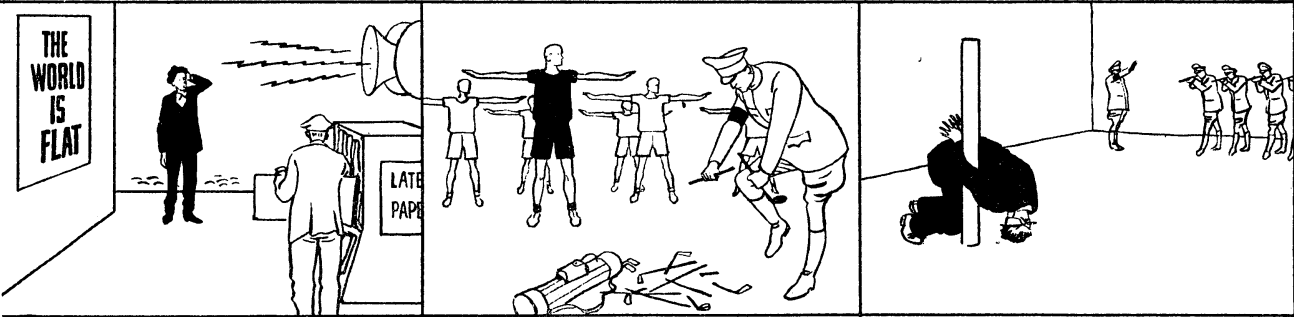
6. "Planners" hate to force agreement
Most "national planners" are well-meaning idealists, balk at any use of force. They hope for some miracle of public agreement as to their patchwork plan.



10. The "strong man" is given power
In desperation, "planners" authorize new party leader to hammer out a plan and force its obedience. Later, they'll dispense with him—they think.

11. The party takes over the country
By now, confusion is so great that obedience to the new leader must be obtained at all costs. Maybe you join the party yourself to aid national unity.

12. A negative aim welds party unity
Early step of all dictators is to inflame the majority in common cause against some scapegoat minority. In Germany, Nazis' negative aim was anti-Semitism.



16. Your thinking is "planned"
In the dictatorship the "planners" unintentionally created, there is no room for difference of opinion. Posters, radio, press—all tell you the same lies.

17. Your recreation is "planned"
It is no coincidence that sports and amusements have been carefully "planned" in Russia, Italy, Germany. Once started, "planners" can't stop.

18. Your disciplining is "planned"
If you're fired from your job, it's apt to be by firing squad. What used to be an error has now become a crime against the state. Thus ends the road to serfdom.

says, governments should plan for free competition, because free competition is the natural and only regulatory power under which people may continue to be free. The above simplified pictorial treatment of such a book

by a popular magazine like *Look* has its own intrinsic interest, but beyond that it may be significant as a reading of the weather vane, or as the sign of a ground wind blowing from the right.

(Continued from page 87)

dying and getting buried out of this free and wholly civilized society. One wonders if masses for the dead will be rationed.

Compulsion is an ugly word. Sir William avoids it. He does say that "full employment cannot be won and held without a great extension of the responsibilities and powers of the State, exercised through organs of the central government." Since it is the first responsibility of the State to create demand equal to the total product of full employment, which it does by "incurring expenditure," it follows reasonably that the State must govern demand. In the words of Sir William, the State must "socialize demand." In order to do this, it must control prices; it must control the distribution of population; it must control the location of industry; it must control the use of land, the employment of capital and the rate of interest. With all this control and direction, it seems to Sir William that people may still be free, if only they will have the good sense and good manners to accept it intelligently—until he comes to wages. With wages he has some difficulty. He cannot deny that the right of wage earners to bargain collectively is an essential freedom. Indeed, he asserts that it is. He is obliged to admit that when the State has created demand for all the labor there is, or a little more, organized labor's bargaining power will be so increased that it could be very easily abused. Wages are both income and cost. As cost they must be contained in the prices. How then can the State undertake to control prices if it does not at the same time control wages? Sir William's solution is to say that you will have to trust labor to be intelligent and reasonable and self-restrained; and if anyone says that such has not been its history, he answers that everything will be different when the State has guaranteed full employment. For then labor will have nothing more to worry about and no reason to be unreasonable in bargaining. However, that remains to be seen. And Sir William himself admits that if labor is not reasonable, then the State at last must control wages.

When by "incurring expenditure" the State has created demand for all the labor there is, it must have something to spend—something that will be called money. How shall it keep itself in money? But this is a silly question. It belongs to the dying world of orthodox finance. "In matters of finance," says Sir William, "the State is in a different position from any private citizen; it is able to control money in place of being controlled by it." Since it controls money, the State cannot go broke; it is not bound by any law of solvency. It can tax, it can pursue "a policy of continuous borrowing," or it can print the money; and its choice of means will be based "not on considerations of finance or budgetary equilibrium, but on a weighing of priorities, that

is to say, on social and economic policy." No principle is involved at all. It is purely a matter of social expediency. "There is," he says, "no difference of substance" between printing the money to begin with, or, on the other hand, borrowing it by printing and selling interest-bearing bonds. So then why not abolish interest on government bonds? Why not reduce the rate of interest to zero? Why should the government borrow at all in fact? Why should it not print the money and be done with it? "This question," he says "is a pertinent one. It does not raise, as many of the so-called reformers think it raises, an issue of principle."

Sir William's answer is that unfortunately for several reasons it is hardly feasible to abolish interest in a sudden manner. One of the reasons is that to reduce the interest rate on government bonds to zero all at once might work to the advantage of those, still rich, who have their money in land, houses and industrial property. Therefore, until interest on government bonds can be abolished, or while it is being gradually abolished, "there are good reasons for meeting State outlay, as far as is practicable, from current revenue raised by taxation, rather than by borrowing. The main reason for this preference is the objection to increasing the numbers and wealth of rentiers, that is to say, of people with legal claims against the community entitling them to live at the cost of the community of the day without working, although they are of an age and capacity to work. This reason is irrespective of the purposes for which the money is borrowed; it is a ground both for keeping taxation as high as it can be kept without stifling desirable enterprise and for making the rate of interest continually lower, till, in the phrase of J. M. Keynes, the 'euthanasia of the rentier' is accomplished."

Sir William is a gentle man, preferring nonviolent methods. The extinction of the middle class shall be gradual and painless. It will hardly know what is happening to it; and in any case during its decline it will be able to save the rent of its safe-deposit boxes.

Like all planners, Sir William becomes so obsessed with the magnificent idea of society as a perfect automatic mechanism that he forgets people. When he thinks of them at all it is with the fear that they will behave as wilful human beings. In one such moment he rounds on them, saying:

"If trade unions under full employment press wage claims unreasonably, maintenance of a stable price level will become impossible; wage determination will perforce become a function of the State. If the private owners of business undertakings under full employment set out to exploit consumers by organizing monopolies and price rings, or abuse their economic power for political purposes, or fail, with all the help of the State and in an expanding economy, to stabilize the process of investment, the private owners cannot for long be left in their ownership. If the people of Britain generally

under full employment become undisciplined in industry, that will show either that they are not sufficiently civilized to be led by anything but fear of unemployment and are unworthy of freedom, or that the control of industry must be changed."

As a semantic invention *full employment policy* now supersedes a *planned economy*, which was bad because it suggested to people that the government was going to plan their lives for them. Now if you watch you will see that the busy billposters everywhere are pasting one label over the other. But the merchandise is still the same and by any name it is socialism. Under this new label Sir William has written the case for compulsory full employment. Perhaps without meaning to do it he has demonstrated that for a full employment policy there is no other kind of case. For the individual, the one irreducible freedom will be freedom to submit—G. G.

The World in a Shadow that Widens and Darkens

ANY book by Benedetto Croce, the Italian philosopher, is expected to be an event in the universe of ethics. This one,* entitled "Politics and Morals," is also a kind of political event, and the reason for that may be understood from the premise that:

"In political action, in attempts to reach a definite goal, everything becomes a political means—everything, including in certain respects morality and religion, that is, moral and religious ideas, sentiments and institutions."

What a man like this can do to political word symbols is cruel. One by one they are divested of their brave wrappings until, if there is anything left, it is but another aspect of that fatal principle of contradiction which inhabits the nature of man. There may be no simple reality; if there is it has neither slogans nor banners. *Liberty*. What is liberty? In itself it is nothing because it can exist only in a state of tension with its opposite. "Liberty struggles against authority, yet desires it; and authority checks liberty, yet keeps it alive or awakens it because neither would exist without the other." Liberty is life joyously desiring to expand; authority is chilling to that spirit. Yet in any kind of state they are inseparable, and this will be true "of the extremes of despotism and liberalism." *Sovereignty*. Who is sovereign? It is not denied that to define sovereignty and to decide in whom it shall be vested may be a matter of very practical meaning, and yet it is true that everyone is by turn sovereign and subject, even the king who complains that he has not as much freedom as the lowest man he governs—the man who has little and wants little—and this is so because: "In the relationship between ruler

*"Politics and Morals," by Benedetto Croce. Philosophical Library, Inc., New York.

and ruled, sovereignty belongs to neither but to the relationship itself."

Democracy, defined as the tendency to give the masses more political importance, "may or may not be plausible in given circumstances," he says; Jacobinism, the extreme principle, with its own ways of recourse to imposition and violence "will be always very slightly plausible." In any case, neither one nor the other is either impossible or absurd. But there is one political theory—and it is one now sweeping the world—that is both impossible and absurd, and that is the theory of *equality*. Croce says:

"This theory presupposes the equality of individuals, and places it at the foundation of States. This equality would not be conceivable except as a form of self-sufficiency, of the complete self-satisfaction of the individual, with nothing to ask of his fellow man, whose equal he is. Equality in this form cannot be of value in the founding of State; on the contrary, it shows that the State is superfluous, since every individual is a state in himself. Not even a 'contract' is possible between these independents, because there is a lack of bargaining material, that is, of that variety which is the basis of reciprocal rights and duties. In order that the State may rise according to this hypothesis it is necessary to introduce a *deus ex machina*, or to have one or more individuals suddenly detach themselves from the rest, as being neither the equals nor the likes of the others. This would amount to the nullification of the hypothesis and of the whole theory."

There is a chapter on free enterprise and liberalism. Croce says:

"An economic parallel to the authoritarian claim to determine beforehand how men should think and act politically would be the claim to determine similarly the 'just' price of anything. Both claims are medieval, even though they may be made again in each new era, even in our times. Both are opposed by liberalism and free enterprise which are paralleled, in the field of science, by the formula of free research and free discussion."

The great mistake of free enterprise, he thinks, was that it assigned to itself the value of social law, whereas political and ethical liberalism is, or was, the supreme law of social life. Thus, "private enterprise was changed from a legitimate and economic principle to an illegitimate ethical theory."

For Croce the individual is the fact of supreme meaning. It is only in terms of the individual that any problem can be solved. But now, he says:

"It is not uncommon to hear the wistful proposal that we entrust to an international assembly of scientists the task of outlining, on the basis of science, a program or hygienic regime for humanity, which has suffered so many hardships throughout the centuries and is today still in suspense and deeply afflicted! No, this is not the course to be followed. The political problem as a practical problem is a problem of enterprise, invention and creation, and therefore wholly individual and personal. All knowledge helps; but no single knowledge will ever tell me what I must do, because this is solely the secret of my own being and the discovery of my will. As long

as the problem is stated in the impersonal and objective form: 'What must the world do, What must Italy do?,' it is stated in a form that is debatable in the abstract but insolvable in practice. What the world must and will do is known and will be known by the world and not by me; what Italy must and will do is known and will be known by Italy and not by me. On the contrary, the correct way of expressing the problem is 'What must I do?—I who live in the world, in Italy, etc.' . . . The good of which we speak, an historically attainable good, is the dialectic product of the concordant discord of moral individuals, and will, therefore—but cannot at present—be known by the individual who joins in the mystery of creation, just as the father does not know the son whose creation he shares."

The last chapter is on historical pessimism. It may be that in the philosophical sense Croce is not himself a pessimist. He believes still in the "intellectual and moral conscience," and in the power of this as the infinite remedy. History, he thinks, is what we make it. But there may be irony even in that. Before this, speaking practically, he has said with bitterness: "History does not acclaim as heroes those who have sacrificed their native land to an ideal, but rather condemns them for having subordinated the interests of the State to any other motive, however generous." That was in the chapter on international justice. In a fine sentence he asks: "Should we hope that the world may be overrun by sayings that bring people together spiritually, similar to the one heard at the close of the eleventh century, stating 'God wills it?'" That would be well. But there is no lack even now of sayings that bring people together, or should, and yet alas! the world is in a shadow that widens and darkens.—G. G.

About Cartels

IF trusts and cartels, like persons, are not guilty until the court says they are, a question of propriety arises when the law enforcement officer invokes popular feeling by hanging them first in the newspapers. Such is the technique of the Department of Justice. The new hangman is Wendell Berge. He is Assistant Attorney General and head of the Anti-Trust Division of the Department of Justice. Now saying that "the casual reader of newspaper reports" has probably no more than "an impressionistic picture of the subject," and that something better is needed, Mr. Berge writes a book,* entitled "Cartels—Challenge to a Free World," in which he presents evidence, all on the one side, and performs the dual role of prosecutor and judge. If the courts, hearing all the evidence, should disagree with Mr. Berge and pronounce the defendant not guilty—and this has happened—that legal and formal verdict long afterward would be

*"Cartels—Challenge to a Free World," by Wendell Berge. Public Affairs Press.

powerless to remove the feeling that was induced or erase the scars that were inflicted by the preliminary hanging.

Besides the question of propriety, there is at least one other. Is trust busting in wartime an essential activity? In six cases—one against the Bendix Aviation Corporation, one against the Allied Chemical & Die Corporation, one against the Mutual Chemical Company of America, two against the General Electric Corporation, and one against E. I. du Pont de Nemours and Company, Inc.—the Army and Navy, fearful of the effect of the proceedings upon the war effort, have persuaded the Department of Justice to postpone trial for the duration of the war.

The policy of this Administration toward trusts never has been clear, forthright, or predictable. In the days of the Blue Eagle the antitrust laws were suspended in so far as they were in conflict with NRA policy. Then later people were prosecuted for having done what the NRA policy required them to do. It now is a curious fact that an aggressive campaign against private cartels coincides with a foreign policy which contemplates international cartels among governments. Mr. Berge defines a cartel as a trust magnified to an international scale. A cartel controls production by agreement, allocates markets by agreement, and raises or stabilizes prices. These acts, as such, are not necessarily evil. Always, or nearly always, they are evil when they are the acts of private cartels operated for profit. But as acts of government, or as they might be acts of the United Nations, operating through international cartels, they would not be evil, for Mr. Berge says:

"If and when some measure of control and regulation becomes economically necessary on an international scale in a particular industry, a question is presented for governmental action—not for private cartel action. If, for example, in a particular industry it seems necessary to control production in order to avoid waste of a scarce natural resource, the solution of such a problem is properly a responsibility of a national or international governmental action. Where control is needed, it must be by public authority. If international restrictive agreements are ever needed, they must be determined upon by governments—not by private cartels."

He believes that after the war "most foreign trade can be conducted on a competitive basis if we give competition a chance." What of that part, less than most, that cannot be conducted on a competitive basis?

Mr. Berge's book leaves the reader still with "an impressionistic picture." For one who means to make even a casual study of the subject it has almost no value. There is much more light in a small pamphlet by J. Anton de Haas,* entitled "International Cartels in the Postwar World," published by the American Enterprise Association. Dr. de Haas has no case to prove either for or against car-

*"International Cartels in the Postwar World," by J. Anton de Haas. American Enterprise Association.

tels. He wants to know only what they are, why they are, and what they are supposed to do. But he does touch a tender spot when he says: "In view of the cooperation the United States Government has found it necessary and advisable to give in establishing commodity controls for some of the most important raw materials, it comes therefore as a surprise to hear this same government condemn categorically all attempts to control production and prices of other raw materials."

Zealots for planned economy who at the same time denounce cartels as wicked in principle involve themselves in an apparent contradiction. But of course what they denounce, without making it always clear, is the private cartel only. If a cartel may be defined as an agreement among competitors to regulate competition and to control production and distribution in order to achieve a profitable stability, then the wheat agreement in which the United States,

Canada, Argentina and Australia have joined is an international cartel created by governments, and by the same definition the AAA is but a series of domestic cartels sponsored by government to the point of compulsion.

All at once books about cartels have become popular reading. If you add pamphlets, magazine articles, editorials and speeches, the total current literature of the subject is enormous and sudden. The general thesis is that in so far as it may be necessary to control and rationalize competition by agreement for the sake of economic stability, governments must do it. And you may search it in vain for a statement of the crucial difference between a private cartel and a cartel created by any two or more sovereign governments. The difference is that the private cartel after all is subject to law and competition, whereas the other, in the ultimate term, is subject only to war.—G. G.

On Raising the National Debt Limit to— One Third of a Trillion

From the debate in the House of Representatives

Mr. Doughton of North Carolina. Mr. Chairman, the bill was unanimously reported by the Committee on Ways and Means and has for its purpose the increasing of the authorized debt of the United States from \$260 billion to \$300 billion. This bill does not increase taxes. Its primary purpose is to extend the borrowing power whereby the Treasury may be enabled to take care of expenditures made necessary by acts of Congress.

Mr. Knutson. I think it would be very interesting if the gentleman would insert in his remarks at this point what the expenditures of the government were between 1933 and 1940.

Mr. Bulwinkle. If the gentleman is going to insert any of that, I suggest that he insert also the reason why there was the necessity for making these expenditures, after four years of the Hoover administration.

Mr. Doughton of North Carolina. I have tried since the war began in 1941 to avoid partisan discussion . . . If there is waste and extravagance in the prosecution of the war under the War and Navy Departments, it is as much the responsibility of the distinguished Secretaries who were Republicans as it is of the Democrats. Mr. Roosevelt could not follow up all those things.

Mr. Knutson. My good friend from North Carolina is not exactly fair when he states that the President took the war out of politics when he made one Republican the Secretary of War and another Republican the Secretary of the Navy.

Mr. Doughton of North Carolina. I said he made the effort.

Mr. Dondero. It has been rumored around that this nation has been committed to lend some \$22 billion to various foreign countries in the postwar era. Did the gentleman's committee take that fact into consideration?

Mr. Doughton of North Carolina. We cannot legislate on rumors.

Mr. Crawford. . . . There is nothing in this estimate of \$304 billion which has anything to do with commitments we may make under the Dumbarton Oaks proposals, under the Export-Import Bank proposition and under the stabilization plan for currencies or the International Credit Bank. That is true, is it not? . . . I have not mentioned the things that are being discussed under lend-lease. . . . I do not think they are rumors. My question is this: The \$304 billion estimate does not include any of those items, does it?

Mr. Knutson. Bretton Woods suggest trees, mostly oaks, the fruit of which is nuts.

Mr. Keefe. . . . When you consider the proposals that are now pending before the Committee on Banking and Currency to reduce the gold content of the dollar down to 25 cents, and further to increase the price of gold to some \$56, as it has been alleged, I understand, thereby creating an artificial profit on the books of the Treasury that they can spend for these purposes, it may be that neither the Bretton Woods proposal nor lend-lease may ultimately be translated into actual public-debt transactions. . . .

Mr. Knutson. Of course, we will continue to give and give until we take Santa Claus into the barber shop and give him a shave.

Mr. Monroney. Just to keep the record straight, there is no bill that is being heard or considered seriously by the Committee on Banking and Currency that is going to devalue the gold or set up any artificial profit on the gold.

Mr. Spence. There has been a bill introduced, I believe, to increase the value of gold to \$56 an ounce, but it has not been considered.

Mr. Keefe. It is before the gentleman's committee though, is it not?

Mr. Spence. It is before the committee.

Mr. Knutson. . . . I have often thought that we ought to set Coal Oil Johnny up as the national emblem, rather than Uncle Sam.

Mr. Jenkins. When Mr. Bell, the Under Secretary of the Treasury, came before the Ways and Means Committee a few days ago, he took the position that in the past the words "the national debt" did not include all the debt of the nation. As I understood it, he gave the impression that the national debt had a somewhat restricted meaning and was restricted to the written obligations of the government. Of course, these would be principally government bonds and long and short-term notes. . . . In fact, however, every obligation which the government owes is a debt of some kind. It is in fact a national debt. And is in fact a part of the national debt. There is no question but that the debt not subject to the limit is a tremendous debt and that it can be estimated. . . . The national debt is at least \$100 billion more than the figures given out by the Treasury . . . We should not accept the statement that \$232 billion is the present national debt for I think I have proved conclusively that the item of \$23,468,879,992.71 is a legitimate portion of the national debt because it represents credit obligations especially entered into by the government. Likewise, the \$67,057,064,000 item which I have shown to be genuine obligations of the government should also be considered as a part of the national debt. In addition, there are billions owing on open accounts which I have not included.

Mr. Carlson. I was about to say that we had reached the place where these comparisons are beyond comprehension. Last Friday evening I listened to a radio program on a nationwide hook-up entitled "Double or Nothing." Here is the question that was submitted to all the contestants. If you stacked one million \$1 bills together how far would they reach? Various answers were received ranging from a few feet to over 500 miles. To my amazement the correct answer was 60 miles. This seemed almost unbelievable to me and therefore I verified it.

Mr. Rich. We will eventually come to the point, if we keep on without some economy in government, where we will not be able to stand the expenses of government.

Mr. Engel. A year ago the War Department kicked back into the Treasury \$32 billion which they had more than they could spend.

Mr. Dingell. Once before when the Committee on Ways and Means came before you, I believe it was disclosed that the war cache contained an amount equal to about 30 months of maximum calculated expenditure. Only a small part was obligated and a lesser part allocated out of a sum which reached the astounding figure of something like \$210 billion. Was it any wonder that the agencies charged with the expenditure of this huge amount raced with the Congress in spending the golden horde before another and greater appropriation was made?

Mr. Rich. Has any Member of Congress given the gentleman any good reason or any good idea as to how this country is going to survive and pay this great national debt that we have?

Mr. Gifford. I dislike to answer the question because I am a little pessimistic . . . The road to ruin is always kept

well paved. They are paving that road constantly so that we can travel it safely, at least temporarily. There are dozens of paving jobs, such as further gold clipping and manipulation of the Federal Reserve notes. I recently read the conversation between the gentleman from Wisconsin [Mr. Keefe] and Chairman Eccles of the Federal Reserve, in which the latter had to agree that the Federal Reserve note was really fiat money. If we could only understand this money business, but we do not.

Mr. White. Does the gentleman think a man who does not understand money and refuses to study the money question has any business representing the American people in this Congress?

Mr. Gifford. The gentleman's question may be all right, but the answer would be very indiscreet.

Mr. White. I would like to have that in the record.

Mr. Voorhis of California. The government itself ought not to have to pay interest upon its own credit when that credit is created by a private institution. . . . My proposal for one hundred per cent reserves might or might not take care of one-third of the outstanding debt. It would take care of a considerable portion of the debt in this way: If Congress permitted the banks to count as eligible reserves government bonds which they now hold until the time that those bonds mature and if we required one hundred per cent reserves, then when the time came for those particular bonds to mature, they ought obviously to be replaced with an equivalent amount of currency, and that currency would become a portion of the required reserves behind the demand deposits in the banks. That currency, I think, ought to be created by a government agency without debt or interest charge in order to replace the interest-bearing bonds as a portion of the reserves of the banks. If that were done that part of the national debt, whatever it might be, would be paid off without either taxation or refinancing being necessary.

Mr. Patman. The thing I fear more than anything else in a huge debt is inflation. It is true that our debt today is sufficiently large that we would probably have ruinous inflation were it not for our stabilization and price control program. . . . I have a number of figures I want to invite your attention to for the reason that what we have got to watch more than anything else is the effect of these inflationary pressures upon our stabilization and price control program. If that price program dam does not hold, we are all ruined. . . . In Italy sugar costs from \$4.50 to \$8.75 a pound; soap, \$7.50 to \$10 a cake.

Mr. Rich. I think we want to centralize on price control, but I might suggest to the gentleman that if he can get \$7.50 for a cake of soap, and we have lots of soap here, why not send a shipload over and get enough money to pay off our national debt.

Mr. Patman. There is nothing to stop the gentleman.

Mr. Keefe. I want to say to you who are complaining about bureaucracy in government that the time has come for you to give consideration to taking back into the hands of the Congress the power to determine the payment of subsidies, the payment of all these things that are being carried on by these giant corporations which by your previous acts you have practically placed without the scope of control of the Congress of the United States.

Roll call. Yeas—356. Nays—4. Not voting—72. So the bill was passed.

Freedom and Taxes

By X——

For sufficient reasons the author, who is an active economist, prefers to have his essay presented in this manner. It stands, therefore, on its merits as a radically conservative statement of almost forgotten principles.—Ed.

INTRODUCTION

It is generally agreed that the federal tax structure developed before and during the war will prove unsatisfactory after the war because it will promote chronic unemployment and undermine the American individual enterprise system. This is sufficient reason for reexamining the federal taxes. But such reexamination is the more imperative because the tax burdens of the future are expected to be greater than the prewar burdens. Faulty taxes can be endured without too great damage when the tax rates are low; when rates are high bad taxes are destructive. The basic principles of federal taxation may be established either from the viewpoint of the taxation that will least interfere with attaining and maintaining prosperous production, or from the viewpoint of the taxation that is most in accord with the American system of individual freedom and enterprise. Both examinations lead to substantially the same result, but the following comments are from the latter viewpoint.

This Society

THE American society is founded on the idea of individual freedom. It is an abnormal society, for most of the social organizations of history are of the authoritarian form in which a ruling class exploits the governed. Most people in America think they believe in freedom (not so many people really do); but few have sought to define freedom in specific terms. Yet we must so define it if we are to relate the principles of taxation to it. One approach to a specific definition is to note the ultimate means by which people can be compelled to do things against their wishes or inclination. They are not many.

First, there is the infliction of physical injury or confinement. Then, there is the taking away of property backed by the threat of physical injury or confinement. Finally, there is defamation.

These, or the threat thereof, constitute virtually the entire list of ultimate means by which one person or group may compel another. If people can be prevented from exerting such constraints against each other, then what remains is freedom within the limits of individual capacity and desire and within the natural resources environment in which a people may find itself.

Government in America is primarily the business of preventing people from constraining and exploit-

ing each other; that is, the preserving of individual freedom. To do it the government is granted a monopoly in the exercise of these constraints—of applying physical confinement or injury or deprivation. By threat of confinement or deprivation by government the strong are prevented from assailing or stealing from the weak—thus leaving freedom for all. The parent cannot even spank his child save that the exercise of this constraint is sanctioned and delegated by government. The maintenance of individual freedom rests upon seeing to it that the government *never* exercises its powers to constrain except to prevent or to punish the exercise of constraint by people of each other. Under those circumstances we have individual freedom. With this in mind we may make the definition as follows:

Freedom in America means that no man may take another's property, physically injure or confine him, or falsely defame him *without his consent*; and that not even the government may do these things except to prevent or punish their doing by the people, provided it may take private property for public use *if* just compensation is given in return.

If That Is Freedom

If this definition is observed one may note the following:

- (1) Freedom of worship, freedom of speech, freedom from man-imposed fear or want are automatic because there is no way that one may restrict such freedom to another.
- (2) Markets are automatically voluntary and free, for if no man may take another's property without his consent then each man is free to enjoy the fruits of his own efforts and dispose of them as he sees fit in voluntary exchange for the fruits of others' efforts.
- (3) Production and marketing are automatically competitive for no one has power (unless backed by government) to prevent another from engaging in pursuits similar to his own; as a corollary, monopoly is automatically ruled out unless the government's power of constraint is invoked in its behalf as in patents, franchises, cartels and labor unions.
- (4) The sanctity of contract is automatically implied because one who takes property and does

not fulfil his contract takes it without the consent of him with whom he contracted.

- (5) The right to work for and quit working for one's neighbor (within whatever contractual terms are established) is also automatic; as is also the co-equal but often unrecognized right to hire and to stop hiring one's neighbor (within the contractual terms).

These matters may seem remote from, rather than relevant, to federal taxation in America; yet they are fundamental, for taxation is the systematic taking, without specifically definable *quid pro quo*, of the individual's substance for the support of government.

Taxation, because it is necessary and because it is taking under constraint, is a principal danger to the maintenance of freedom in America. The taking being unmeasured in free markets against individual benefit conferred, the constant (and quite human) temptation of those who govern is to engage in tax (and expenditure) favoritism in order to maintain their positions of power and to expand the power they wield beyond the rigid limits that must be observed if individual freedom is to be preserved.

With Consent of the Governed

The key to federal taxation that is in conformity with individual freedom is epitomized in the phrases "with the consent of the governed" or "taxation by representation." Taxation that is *truly with the consent* of the taxpayers, as distinguished from being imposed by some on others, is fully within the definition of freedom. "No taxation without representation" was one of the slogans of the Revolutionary War out of which came our society. It could only have meant representation of the *taxpayers*, for the tax tyranny of a foreign king does not differ essentially from the tax tyranny of a domestic group. The determination of the principles of taxation in consonance with freedom thus becomes one of ascertaining just how true "consent" is steadfastly to be secured.

This, of course, cannot mean that each individual taxpayer is to pay only that which he voluntarily decides to pay. It means rather that all shall pay *uniformly* what the *most of them voluntarily agree they should all pay*. It is true that a dissenting minority is constrained also to pay, but the extent to which its members are constrained to pay is limited to and protected by that which the *most voluntarily impose on themselves*—or is it? That is the heart of the matter.

Taxes cannot be determined by all the people in a mass meeting. They are determined by elected representatives. Specifically, taxes are originated in the House of Representatives where the representation is according to population. The task then is to

see to it that this body is truly representative of the *taxpayers*—the statisticians would call it insuring an accurate sample. Since we cannot give big taxpayers more representation than little taxpayers (the representation being established as per capita) the only method open to insuring the representativeness is to adjust the distribution of the tax burden to accord with the representation.

This Tyranny Foreseen

This adjustment was provided in the Constitution (before the adoption of the XVI Amendment in 1913) by providing that all direct taxes (of which income taxes are the most direct) should be apportioned among the states in exactly the same way that representation is given in the House—that is, according to population.

That way it was impossible for a majority to get together and support a direct tax that fell more heavily upon a minority than by the same act it bore upon the majority. The principle of the voluntary was preserved. The majority had to assume a tax burden voluntarily before it could impose one (but not a greater one) on a minority.

Those in the minority were constrained to pay, it is true, but only as much as those of the majority imposed on themselves. Each voter had one vote in electing representatives to decide the tax and each was therefore to pay the same tax their representatives levied.

No better protection for identifying federal taxation with freedom could have been devised; there is no surer way to reidentify them than to repeal the XVI Amendment which granted unlimited power to majorities to impose direct taxes on minorities not paid by themselves, and which has made possible an orgy of demagogic tax exploitation under the slogan "soak the rich." There is, of course, no freedom but only tax tyranny when the mass of the electorate supports heavy taxation of a small minority, while itself escaping the burden.

Contrary-minded people say those of greater means "can afford to pay more" or have "greater ability to pay." To some extent this is undoubtedly true and to it consideration will shortly be given. But it still remains true that tampering with the identity between voting and paying is tampering with freedom in America. It is far better that the majority surely and voluntarily vote taxes on themselves while a minority escapes, for that is freedom, than that a majority impose taxes on a minority which the majority escapes, for that is tyranny. The majority has power to protect itself, the minority does not, as pointed out by Madison in the tenth Federalist paper.

Proportional Taxation

If everyone paid the same tax, then it is conceivable that the tax would equal the whole of

some small incomes and be but a fraction of some large incomes. It would deprive some of the whole fruit of their exertions and others of diminishing fractions of the fruits of theirs. It is apparent that equality in taxation does not necessarily mean equality in relative burden or sacrifice. If we distributed taxes so as to make the tax *burden*, rather than the tax amount, equal to voters, would we then still have tax paying and tax voting equated? Would the identity be even closer? There are certain reasons and precedents for supposing this would be the case. But what is an "equal burden"?

Perhaps the closest to the fundamental that we can get is to recognize that when man is born into the world he has only his limited life span at his disposal. It is the element of man's time involved that gives value to things. Air is necessary but has no value because it is abundant. Conditioned air has value because it involves the time of men to provide and operate the mechanisms to produce it. Gold and diamonds take time to discover and mine. An equal burden to men of unequal capacity can then be deemed a burden that conscripts an approximately equal amount of each person's time. The earning power of men may differ, but an equal proportion of each person's income tends to represent an equal conscription of time or enjoyment and hence an equal burden.

This recognizes that a spoonful of food to the well-fed would yield more human satisfaction if fed to the hungry—the law of diminishing utility; but it holds that a ten per cent of each person's income tends to be equally prized.

The Moral Precedent

If direct taxes are apportioned in proportion to income instead of in proportion to population, while the voice in determining the tax is in proportion to population, we then have established, in the light of the preceding, a reasonable identity between tax determination and human disinclination to pay it. This recognizes equality between men in terms of their each having one life to live, without denying the obvious inequality in their capacities; it protects freedom to live by providing that taxes shall substantially infringe equally upon each person's lifetime.

In support of proportional, direct taxation there is much moral and legal precedent. Tithing started with Moses and has had religious sanction ever since. There are no exemptions. Sales taxes, excises and customs are collected in proportion to the means expended in purchasing; property taxes are percentages of valuations. These would be the principal sources of revenue were the XVI Amendment repealed, and so its repeal would automatically give us approximate proportional taxation. Military conscription takes the same time from each subject to it. Business assessments and distribu-

tions are apportioned according to value participation. Proportional taxation of income is the only taxation that leaves the relative distribution of income unchanged.

That distribution as determined in a society by the *voluntary* decisions of its members is the one which represents the maximum attainable human satisfaction in terms of sacrifice to secure it. Thus no one receives a money income in a free society except that he or his property render the community a service voluntarily paid for by the community at its own price. He who secures greater income renders greater service. The community purchases his products or services in greater measure than those of others (thus giving him greater income) only because it wants to—because the shoes he makes, for example, give the greater satisfaction. To redistribute the income under *constraint* is to cross the community's voluntary decision and thus necessarily to diminish the sum of human satisfaction.

Straight proportional taxation is the only practical and definite arithmetic principle of direct taxation that there is between the principles of (a) everybody paying the same amount of tax and (b) income equalization; that is, taxation, coupled with subsidy, which results in everyone having the same income *after* the tax and subsidy.

If anything, proportional taxation takes too much rather than too little of larger incomes, if we consider taxes as payment for the cost of benefit conferred by government. It costs no more to light, clean and maintain order in the streets for the benefit of those of larger income than for those of lesser; or to maintain courts or count votes; or to provide schools. Many government costs are *per capita* costs and justify *per capita* taxes. It is, of course, erroneous to hold that one's income—whatever it is—is a benefit conferred by the community on the individual, for it is as much a measure of the service rendered the community by the individual; they are quits. It is only from the viewpoint of *equal sacrifice*, of equal disinclination to pay a levied tax, of equal infringement on one's "living," of equal burden, that proportional, as distinguished from equal, direct taxation may be justified under the principle of taxation by representation.

Progressive Taxation

Progressive taxation of income by the Federal Government, which is currently practiced in the extreme, provides, first, that many people of small income (that is, numerous voters) are exempted entirely from paying, and, secondly, that successive increments of larger incomes are taxed at progressively increased rates that become confiscatory.

There is no justification in morals or in the principles of freedom for progressive taxation. It is the

simple looting through law of the more productive by the more numerous but less productive. Its appeal is demagogic and its result is communism, which in turn is but a transitory stage in the evolution away from freedom into dictatorship. The supporters of progressive income taxation are, knowingly or unknowingly, supporting communism, and the sincere ones, motivated by generosity, are unwittingly among the worst enemies of freedom in America.

Those defending progressive taxation have no principles to rely upon short of taxation which equates all incomes after taxation,—that is why they support communism; their argument boils down to vague assertions that poor people can't pay much and rich people "ought to pay" higher rates. When asked how much higher, there is no answer save that it is a matter of judgment—which in practice comes down to the venal philosophy of plucking the goose just short of killing it.

Some hold that large incomes have got to represent exploitation of others or luck, simply because they are large, and that tax confiscation is a just punishment. This overlooks:

- (1) No one gets a money income in our society unless it is *voluntarily* paid him by the community at its own appraisal of the service he renders in exchange. The community is quits with the individual at that point. The argument is weird which holds that he whose industry provides the community with 100 pairs of shoes, for example, should be punished as compared with him who provides but 10 pairs.
- (2) No one constrains competitors through monopoly except with the support of government. Monopoly income should be corrected by withdrawing the support rather than by taxation to include also nonmonopolistic income.
- (3) The thought that it is just to deprive people by taxation of "unjust" income is a travesty on justice. Were income unjustly secured, justice would require its return to *those from whom it was received*. To loot the "looter" through taxation is to engage in "hijacking," not justice.
- (4) If some in a specified income bracket are getting "too much" income, then it follows that others are getting too little. To penalize all is thus, within the very concept itself, to aggravate injustice as much as to dispense justice.

Those favoring progressive taxation claim that those of small income should pay little or no tax (be exempted). They can't afford to pay, it is claimed. But if so, then they can't afford to pay for anything else either. There is no reason why, in proportion to their means, they should not pay for government as for other things; there is vital reason why they should if they vote. Thus the ar-

gument is essentially an appeal to charity; but the practice is something with an uglier name unless it is also provided that the man who pays insignificant or no tax shall have no vote in selecting representatives in the tax-determining body. For otherwise the body degenerates into levying taxes not on those it represents but on others. This is tax tyranny, not taxation by consent, not freedom.

The care and the relief of the unfortunate in a voluntary society must be *voluntarily* undertaken by those who care for them, if the voluntary society is to be preserved. If that care is constrained (as through taxation), then we no longer have a voluntary society. When a man voluntarily gives something to another we have a voluntary society, but when one man votes benefit to himself at compulsory cost to others, then even though there is the same transfer of value, the morals of the robber have been substituted for those of charity. Charity and compulsion, that is, government, cannot be mixed and freedom remain unimpaired.

Tax Principles

From the foregoing there emerges one central principle that transcends all others: If we are to have freedom in America, then taxation by representation of *the taxpayers* must ever be jealously preserved. With taxation initiated in a body where representation is per capita this means that direct tax burdens must be equally distributed among the people. An equal burden is deemed one which consumes an equal proportion of each person's life, which in practice means an equal proportion of income. The one thing always to dread is the laying of a tax burden on minorities by majorities which the majority itself escapes. That is tax despoliation. From this central principle more detailed principles derive:

- (1) If individual income is to be taxed, all of it, from whatever source derived, by whomever received, in whatever amount, should be taxed at the same rate. This neither "soaks the rich" nor "burdens the poor"; it is the only even-handed principle that is practical. To tax larger incomes at higher rates is to lean toward tax despoliation; to tax the more numerous (smaller) incomes at higher rates is the better to insure that people are voting taxes *on themselves*, in accordance with the principles of freedom. The latter is far safer than the former.
- (2) Taxation should be simple in principle and in application in order that there shall constantly be general understanding of it, for otherwise there can never be surety that the consent of the taxpayers is truly rather than misguidedly secured. By the same token federal taxes should never be hidden, and it is preferable that their payment be painful rather than painless. The levying of hidden taxes is a practice more

fitting to an authoritarian state where a ruling class endeavors to keep the governed contented like cows regularly to be milked. In America the preservation of taxation by representation requires that those whose consent is requisite under that principle should at all times be distinctly aware of what the taxation is.

- (3) Federal taxation should be uniform geographically and with respect to the tax base. This means that if there is to be a sales tax all things sold should be taxed, and at the same rate. If so-called luxuries are taxed and so-called necessities are not, this is but an evasion of the principle of equalized burden. It is obviously an effort by a majority to make a minority endure a greater tax burden than the majority is willing to assume. If the buying of tobacco, liquor, and fur coats is "sinful," then taxing, rather than forbidding, it is not the practice of virtue, but the commercialization of sin for revenue.
- (4) The federal government should make no expenditures of any kind for which in return the government does not receive an equivalent *quid pro quo*. The dispensing of gifts by the government lightens the net cost of government to the recipients. By giving back part (or more) than was taken in taxes the result is the same as if the burden of taxation had been lightened for the selected group. Moreover, the power to make gifts of other people's money is the power to command political obeisance and a most dangerous instrument in the hands of power-hungry politicians. This means, for example, that social security costs should be financed exclusively by the benefited group—never at the expense of the general taxpayer.
- (5) Tariffs on imported goods cannot stand under the principles of taxation here set down. They are in the nature of a gift to the protected industry, levied as increased costs to those who consume the protected products. Tariffs may possibly be justified for reasons of national defense or for the protection of "infant industries." They cannot be justified as a kind of taxation that accords with the principles of freedom in America.
- (6) Taxation of estates or gifts by the Federal Government is incompatible with the principles of freedom here enunciated. To tax gifts is to deny to the individual the right to possess, dispose of, or exchange the fruits of his efforts as he sees fit. Moreover, to put a tax penalty on charity and thus comparatively a premium on selfish consumption is repugnant to the American sense of ordinary decency. To tax inheritance is to tax a gift—the only difference being that the man who gives is dead. This only makes its

practice additionally offensive to the principle of freedom because one man who cannot vote is one who is dead.

- (7) There is no place in the framework of freedom for the direct federal taxation of corporations. This is true if for no other reason than that corporations have no direct representation in the taxing body that should therefore not be subject to direct taxation. The direct taxation of corporations is not only incompatible with the principle of taxation by representation of the taxpayers, but since corporate income is taxed again when paid to stockholders, the the corporation income tax represents double taxation of a minority group. This does not mean that corporations or any other form of business enterprise should not be employed in the collection of taxes. They may represent the points at which taxes may be collected most conveniently, economically and promptly. Thus supposing that there was taxation of individual income, as in (1) above, the business enterprise paying such income in wages, salaries, rents, royalties, interest, fees and dividends to individuals could readily withhold and transfer to the Treasury the income taxes. This would probably be more convenient and certain than the collection of the taxes after the income had been scattered amongst the individuals. Similarly, it is more convenient with respect to sales and excise taxes for the vendor to collect the taxes from the buyer and transfer them to the Treasury than for the Treasury to seek to collect them from the buyer after the sales have been transacted.
- (8) The people of one period should not tax the people of a later period. The people of the later period are not represented in the instant taxing body and hence today's taxation of the people of tomorrow distinctly violates the principle of taxation by representation of *those who pay the taxes*. This means that government expenditures should never (except possibly in time of war) be financed out of debt. To do so is not only to violate the principle of taxation by representation but it is to permit those who govern to engage in expenditure that is not subject to the taxation check and hence not subject to review by the people. This breaks the link between cost and consent and thus substitutes authoritarian principles for that of freedom.

Prospects

The prospects that the principles of freedom will be restored to federal taxation are not great. There is no influential group and few individuals who perceive the danger to freedom in America in progressive direct taxation, or who, perceiving, have the courage to denounce the principle and its practice.

This is thoroughly understandable for a number of reasons: It is a long time since we fought a war to get taxation by representation and the realization of the meaning of the phrase, its vital importance to freedom, its relation to "the power of the purse" have grown dim. The appeal of progressive taxation is double-edged—it appeals to the mass voter's greed that the "rich" should pay the taxes, and simultaneously the greed is glossed over by invoking the spirit of generosity and Christian charitableness for which Americans are notable.

The disappearance of freedom in America through tax despoliation is so natural an evolution that it has been feared and predicted by statesmen and historians down through our history, Madison recognized the danger in the tenth Federalist paper, but pointed out it would be unlikely to happen under the Constitution then proposed for adoption—nor could it until the 16th Amendment, a century and a quarter later. Lord Macaulay in 1857 predicted it would happen in the course of the next century,

when in hard times, the mass of the voters would listen to the demagogues who promised, if elected, to despoil the more productive for the benefit of the less productive.

The real hope for recovery of freedom in America lies in the prospect of renewed realization by the people *as a whole* that government which wields the monopoly in constraint has through all history and will ever in the future tend to grow upon its own power into the master rather than the servant of the people unless it is jealously and rigidly checked.

Political parties compete for the exercise of power, but never to diminish the size of the prize for which they strive. The *people*, through their Constitution, must always check the power of government and of *all* political factions, if they would retain freedom. In taxation this means that by Constitutional amendment it must be provided that people equally represented in the levying of taxes shall equally share the burden.

Dependence as a New Folkway¹

By Halton W. Sumners, Chairman of the Judiciary Committee of the House of Representatives

WE have been building up the psychology in this country for a long, long time that when any private person or any state or community gets into trouble, when an individual faces a situation that challenges him to use his initiative and all of his resources and gain capacity by its use, when a small community faces a situation that requires some ingenuity, something that will develop its local citizenship and fit people for the responsibilities of a democratic government, they come to Washington to get some money. They decline the challenge, they lose their opportunity to increase their fitness to govern.

No people can long maintain a democracy who pursue that policy.

A democracy is a group of private people who get together for the purpose of engaging in the common enterprise of governing themselves. They constitute the democracy.

It is an interesting fact that when they initiate that democracy, then nature begins to operate on that thing. It ought to be evident, it seems to me it is evident, to those of us who face the question of whether we are going to have a democracy in this country or a bureaucracy or centralized government, that a democracy is that sort of government designed by God Almighty for human beings. It is not a self-perpetuating, foolproof thing, however. Only God can make a tree, but man can kill it.

This thing we are dealing with today reaches

¹*Speaking on the War Mobilization and Reconversion Bill*

mightily deep. You cannot do a thing the natural consequences of which will destroy the capacity of the people to govern and at the same time maintain a democratic government. They are subject to the laws of cause and effect.

If we built up a citizenship in America under which men who just do not have a job can come to the Federal Government and receive as a gift as high as \$35 per week, as provided for in one of the Senate bills, or a lesser amount, that is not developing the self-reliance and self-respect, the general ability, and pride of independence which are the indispensable assets of democratic citizenship.

What We Know

We know that the Federal Government has not got any money. . . .

We know that we confront definite dangers.

We know that we are not too far from the printing press for money.

We know that when this war is over it is not going to be easy to sell bonds.

We know there is a limit beyond which money cannot be gotten by taxation.

We know that whenever the tax burden upon privately owned property is greater than its receipts, private ownership will not be attractive.

We know that there can be but two sorts of ownership: private ownership and public ownership. Public ownership means communism.

Whenever we create a situation where nobody wants to own and nobody wants to work and man-

age, then there can be no owner except the government and no liberty among its people. There can be no democracy, no popular government, where ownership and control are vested in the governmental organizations. We are not dealing with theories. We are dealing with practical situations.

It is admitted that the financial situation of the Federal Government is worse than that of the local communities and states. Yet, in face of that situation, we are advocating an advertisement to everybody that, when this thing is over with, you do not have to rustle much. Spend all the money you can make in your job now, and when you get through if you really do not want to stay where you are, just send down here and Uncle Sam will send you a ticket. Just draw on us.

So Democracy Would Pass

It is utterly impossible to maintain a democratic system of government where the federal organizations control the purse strings. That is common sense. What is the use of talking about decentralizing governmental power when we put control of the purse strings up here in federal organizations? That is not progress; that is reactionary. That is turning back on the road of democratic progress.

We are trustees of the greatest democracy that has been evolved through the processing of the ages. We know it is going to be the most difficult sort of thing to preserve it. It is going to challenge the genius of a great people, the statesmanship of a great people to preserve it. We are a great people. We will be a greater people when we shall have met this challenge.

It is not going to be easy to pay for these bonds in money of comparable value to the buying power of money now. Every increase of the national debt will add to that difficulty. What will happen to insurance policies, to the people who own these bonds, some of them the men who have been fighting the battles of the world, if the accumulated debts of the country become greater than the capacity to pay? Men giving their lives on the battlefields of the world to preserve democracy—and we holding out in advance of demonstrated necessity this line, this opportunity, this invitation to receive gifts from the Federal Treasury and have the amount charged to the generation to which our fighting men belong, and calling ourselves statesmen. . . .

By What Right?

Why are they entitled to come to the Federal Government for this money? The Federal Government has not got any money. Those of our generation are not going to pay it. We have spent billions of dollars more than we are going to pay.

I am not talking about some theory. I know what it is for people to have to do a little rustling themselves. When I was a boy my father went

broke and did a perfect job. The first house we lived in after that we paid \$600 for, but we paid for it. I worked for \$25 a month. I slept in a lawyer's office, while I read law, but I earned that money myself and I did not lose anything by the effort and by the struggle to get it, either.

How can you expect people to retain strength in their muscles unless they use them?

How can you expect these millions of people in the United States who must be the citizens of tomorrow and the citizens of today—how can you expect them to be able to guide the destiny of a great republic bottle-fed and rocked to sleep in the arms of a federal bureaucracy?

The point I am trying to make here is that you are discriminating basically against the private individual when you deprive him of the necessity to use his own ingenuity. . . . We are not dealing with this question as Democrats or Republicans; we are deciding today and tomorrow in which direction we move, and upon that decision, in my humble judgment, depends the fate of this democracy.

I do not want to be critical of those who hold different opinions from that which I have expressed. It belongs to the soul of the nation that there must be liberty of speech. I do not question their motives, but I question the soundness of the conclusions of any man or woman in an hour like this when the nation stands at the forks of the road where it must choose, where it must move toward independent individual responsibility, community responsibility, responsibility of the states to govern in matters within their governmental capacity.

The Two Roads

One road leads in that direction and the other road leads toward the Federal Government. And we are putting up the sign boards. Let no one make any mistake about that—we are putting up the sign boards in this legislation. One leads back to the individual, back to the local community, back to the state, back to the struggle, back to the ability to gain strength and courage and determination; and the other leads to the Federal Government, the Federal Treasury, to Uncle Sam, to dependence, to individual defeatism, to us loss of those strong qualities and characteristics of our people which we are destroying and which are indispensable in a democracy.

One leads toward national bankruptcy, one leads to the depreciation of the dollar, one leads toward the inability of the Federal Government to pay its obligations in money of purchasing power comparable to the present value; the other leads toward strength, toward solvency, toward the hope of the ages; because, as America goes, so goes the world. In our hands we hold the hope of the ages for men and women who aspire to be free—free—I mean free individuals.

The Full Employment Hoax

By John W. Scoville, *Economist*

TAKE several well-grown economic fallacies, mix thoroughly with a dozen undefined words, season to taste with economic ignorance and pressure-group avarice and bake for two years in the ovens of popular discussion—and you get an unpalatable and indigestible piece of hard tack known as the Postwar Employment Problem. No problem can be solved until someone states what the problem is.

What is this problem? Apparently it is a vague mystical yearning which compels certain people to cry out that after the war someone must provide sixty million jobs—or that after the war we must have full employment—or that after the war we must have a national income of X billion dollars—or that we must never go back to conditions that existed in the Twenties—or that we must have as much employment in peace as in war—or that returning veterans must not be selling apples on the street—or that if industry cannot provide jobs, the government must take over—or that we must have a thirty-hour week to give everybody a job—or that exports must be trebled to provide employment—or that we must have full employment to enable the government to collect necessary taxes—or that we must have full employment to prevent a revolution.

Hypochondria

We have become a nation of hypochondriacs. Merely to list the diseases which threaten the body politic and the cures proposed would require a big book, which might be entitled the Anatomy of Economic Melancholy. In past decades when we were more rational we spoke of good times and hard times, of business being active, slow, or depressed. We realized that when times were hard, farmers, merchants, investors, employers, employees, everyone in fact was less prosperous. The modern theme song, however, uses less-inclusive phrases, and promulgates the idea that when times are hard the only class that suffers is made up of those who work for wages. Now, instead of hard times, we say unemployment and instead of good times we say full employment.

The city proletarians control our phrases and words, as well as our politics. The new phraseology replaces facts with propaganda. The most fundamental error of the advocates of full employment is the confusion of ends and means. The objective of each individual is the satisfaction of desires; the means required to attain the end is labor. But since labor is disagreeable and tiresome, the individual seeks to satisfy his desires with a minimum of labor.

And since the twelfth or fifteenth hour of labor is more fatiguing than the first hour, and since the fifth apple is less satisfying than the first apple—there comes a point at which the additional satisfaction does not compensate for the additional fatigue—and the person chooses rest and leisure rather than labor. All of us instinctively seek to attain our ends with the least possible exertion. In travel, we prefer the automobile to walking. We mow hay with mowing machines instead of scythes. The wife uses a washing machine rather than a washboard.

Rise of Our Satisfactions

Our progress in science and technology enables us to satisfy our wants with less labor. The result is that we have more goods to enjoy than our ancestors had, and we secure these goods with less labor. Think of the goods we have now that were not available a century ago—motion pictures, green vegetables in the winter, tropical fruits, automobiles, telephones, cameras, airplanes, bathtubs, washing machines, electric lights, refrigerators, beauty parlors, etc. Think of the progress in medicine, surgery and sanitation. And we get these greater satisfactions with less labor. Children, instead of going to work, continue in school. Men retire at an earlier age. Those who labor work fewer hours. Many who in earlier times would have been compelled to toil are supported by a relative.

One would think that our ability to secure greater satisfactions with less toil would be a cause for rejoicing. But no! Our minds have become so twisted that we now substitute means for ends. We are alarmed and fear that there will not be enough sweat, fatigue and toil to go around so that sixty million people can all be supplied!

What a wonderful thing it would be if the labor of only twenty million persons could supply us with the goods and services we desire! How can we have the patience to discuss the problem with people who have the silly notion that human toil should be encouraged, created, fostered, and enlarged? We read that a third of our people are ill-clothed, ill-fed, and ill-housed. We know that for several years we have made no automobiles, radios, and household appliances. We know that our buildings and farm machinery have deteriorated. Few residential houses have been built.

Then I read in a recent article in *Barron's*: “Unfortunately, the most thorough survey of possible markets finds no aggregate demand large enough to

absorb the production of such a huge army of employed." Remarkable conclusion! After diverting our energies from peace to war for several years, we will be so well supplied with goods that there will not be enough work to keep us busy. The parts of this jigsaw puzzle do not fit. The theory that there will not be enough work to do does not fit the other theory that so many of us are ill-clothed, ill-fed and ill-housed.

Try a Miracle

Let us come to grips with this problem. Suppose, by some miracle, that the amount of labor required to produce goods was reduced by eighty per cent. Ten million people could then produce all the goods formerly produced by fifty million. I suppose the advocates of full employment would consider this a great catastrophe, and that forty million would be unemployed and starve. They hold to the theory that the easier it is to obtain food, clothing and shelter, the larger the number who will die of cold and starvation.

Now what would happen in this hypothetical case? Some people would work for five years and retire. Some would work for ten weeks and then take forty weeks' vacation. Some would work two hours every day in the year. Most of the people would work to secure additional satisfactions—finer homes, finer furniture, better clothes. Many more families would hire domestic servants. There would be a great increase in travel, recreation and amusements. More people would go to school. There would be a greater demand for barbers, beauticians, painters, sculptors, lecturers, gardeners, etc. In short, we would have more leisure and a higher standard of living.

But we need not rely on imagination applied to a hypothetical situation. For a century the productivity of human labor has been increasing. What was the result? Less employment. Children, instead of working, went to school. More young people went to college. A larger proportion of old people retired. Those who labored, worked fewer hours. People had better houses, better clothing, better food. Per capita production and consumption increased enormously in variety, quality and quantity. Another result was a shift in occupations. There was a relative decline in employment in agriculture, mining and manufacture, and a gain in the professions, clerical work and in trade and distribution. Population increased. The average length of life increased.

As we gained mastery over the forces of nature, we took part of the dividends in better living and a part of the dividends in more leisure or less employment. As technology advances, it is reasonable to suppose that these trends will continue in the future. Let us be done with this scatter-brain doc-

trine that the end-all and be-all of life is work, toil, or employment.

What Do They Mean?

The apostles of full employment do not consider it necessary to define the words. What is meant by employment? Is it the total hours of labor of all, is it the number who do some work, is it the number who work for wages, is it the proportion of those who want to work who are working? If all adults worked three hours a day, would that be full employment? Is the kind of work done important? Is a gambler employed? Is a dope peddler employed? Is a lawyer waiting in his office for clients employed? Is a wheat farmer employed in the winter? Is a boy who peddles papers employed? Is a housewife employed? If she hires a maid, is she employed? Is grandma employed when she knits? Manufacturers who introduce labor-saving machines are sometimes accused of reducing employment. They should admit the charge, without any apologies. Instead, they frequently make the foolish defense, that labor-saving devices create jobs and increase employment.

One of the most absurd of the current fallacies is the idea that everyone has the right to a job. President Roosevelt, in his message to Congress, said: "Of these rights the most fundamental, and one on which the fulfilment of the others in a large degree depends, is a right to a useful and remunerative job in the industries or shops or farms or mines of the nation."

Does this alleged right to a job refer to the right to be self-employed? Has the citizen a right to buy a farm and operate it? Has he the right to buy and operate a grocery store, a barber shop, or a bakery? If qualified, has he the right to practise law, or medicine or dentistry? Obviously a citizen can do these things, but it would be foolish to say the citizen has the right to do these things, for rights refer to the relations of two or more persons. It would be foolish to say that a man has a right to shave himself, for this act is individual, and does not involve two or more persons.

To Whom This Right Applies

This right to a job does not apply then to the millions who are self-employed. It must then apply exclusively to those who wish to be employed by someone. This right to a job is of no value to millions who have jobs. By elimination then we see that this right to a job has value only to those who are seeking employment and are unemployed. Now since all rights are reciprocal relations, if the unemployed have the right to a job, some persons have the duty to employ them. But it does not help John Doe that someone has the duty to employ him. He has applied for work at several fac-

tories and farms without success. If the right to a job is to mean anything to John Doe, then someone must designate the person or firm who is to be compelled to employ him. I say compelled, because John Doe has been unable to find a voluntary employer.

Both President Roosevelt and Senator Murray have indicated that the responsibility for compelling someone to hire John Doe rests with the Federal Government. The full-employment bill specifies that everyone has a right to a job in the industries, shops, offices, farms or mines of the nation. President Roosevelt specifies that these jobs are to be in the industries, shops, farms or mines of the nation. But these are privately operated enterprises. A government official comes to John Doe's assistance. He tells him that the government has selected farmer Brown as his employer. The official and John go to Brown to complete the arrangements.

Unemployment Preferred

Brown notices that John Doe is undersized and rather old. But he meets the official standards—he is able to work and willing to work. Farmer Brown says: "Would John work for thirty dollars a month? I notice his breath smells of liquor, but he might be worth thirty dollars a month and keep."

"That will not be enough, Brown," says the official. "The President has said: 'Americans do not regard jobs that pay substandard wages as productive jobs.' The full-employment bill specifies: 'at locally prevailing wages.' I find that average farm wages here are sixty dollars a month. We demand that this man work for you at sixty dollars a month."

"Now look here," says Brown. "I make about six hundred dollars a year after paying my expenses. I have one hired man now and I do not need two. If I hire this man he will not earn his wages. If I pay him sixty dollars a month, it will reduce my income to only two hundred and forty dollars a year. Why should I be selected as the goat to hire this man? Let Smith hire him, his farm is bigger than mine."

The official replies: "Brown, you did not sign up for the crop restriction program. I heard you voted for Dewey. It is not for you to question the wisdom of our President. He has declared that everyone has the right to a job. In order to give these rights to the unemployed, we must compel someone to hire them. We have to find an employer for John Doe. We select you. You seem to be a reactionary who puts private interest above the interests of society. Furthermore, you are not to fire good John Doe on the ground of incompetence. He meets the government standards, he is willing and able to work."

"Farmer Brown then says: 'I can't fight the government. I am quitting this farm right now. I am looking for work. Find me a job. I demand the right to a job.'"

The official then takes John Doe and Brown to list them both in the unemployment office.

This illustrates exactly what the government would be compelled to do to guarantee a job to every applicant in private industry. Of course, if the government guarantees jobs to all, industry will no longer be private.

If the Federal Government guarantees to everyone the right to a job in private industry at remunerative wages, then employers are denied the right to determine the number employed, the wages paid, and the qualifications of the employees. Most laws protecting rights of citizens are for the purpose of protecting citizens from injury by other citizens. But a *full employment* or *right to work* law enables job seekers to *injure* employers. This is a perversion of the function of the law.

But the guaranteed right to a job in private industry is a promise the government cannot meet—a right the government cannot grant—without replacing freedom with communism. The advocates of the right-to-work laws know this. So we find in the full-employment bill that "the rate of federal expenditure may be varied to whatever extent the President may determine to be necessary for the purpose of assuring continuing full employment." And the President said in his recent message to Congress: "Our full-employment program requires extensive development of our national resources and other useful public works."

Not Private Jobs After All

So these jobs, after all, are not to be in the factories, farms and mines! They are to be public jobs like the WPA jobs. And the public projects are not to be undertaken because the people want them, or because they will be worth the cost. They are to be undertaken to provide jobs. The injury is to be inflicted, not on private employers who are compelled to hire people they do not want, but on the federal taxpayers. Since these government projects will not be worth what they cost, they will not provide useful and productive jobs. While these jobs will not be substandard in wages, they will be substandard in utility. Which means that while the jobholders will not be cheated—the taxpayers will be. The real purpose of a full-employment law is to protect arbitrary wage scales established by labor monopolies by relieving the employed of the competition of the unemployed.

The President seeks to create more jobs by "an increase in our export trade above the prewar level." But the purpose of foreign trade—like domestic trade—is to secure goods with less labor. A gain

in foreign trade would not increase employment unless we gave our exported goods to foreigners. We could hide the gift element, by giving money to foreigners (or making unsound loans) and then accepting our own money for the goods exported.

I will pass over the purchasing power fallacy, the fallacy that we need sixty million jobs, the fallacy that we must work as hard in peace as in war, the fallacy that it is a responsibility of government to provide jobs, all fallacies incorporated in the President's recent message to Congress.

Why We Are Not Richer

What is the reason why so many people have difficulty making exchanges of labor or goods? Why are we less prosperous than we might be? I believe the great impediment to progress is the intervention of governments in our economic affairs. Freedom to exchange has been impaired by laws on wages and hours, by minimum wage laws, by innumerable laws relating to agriculture, industry, and trade, by the roles of trade unions, cartels, and trade associations, by unfair tax laws, by fixed customs, etc.

Practically all laws passed ostensibly to make the people more prosperous act in reverse. Most regulatory laws seek to reduce output. Federal farm laws seek to restrict the acreage and output of farms; labor laws seek to restrict the amount of work done by shortening hours and by making labor more expensive; old-age pensions will not be paid unless the recipient agrees to quit working in covered employment; unemployment insurance makes it easier to live without working; tax laws are framed to interfere with the accumulation of capital and to penalize efficient firms and efficient individuals; customs duties interfere with our making profitable exchanges with foreigners; fair trade laws prevent merchants from selling goods more cheaply; laws to keep profits and interest rates low restrict the accumulation of capital; frequent changes in the laws destroy confidence; laws to debase the currency destroy the public confidence in our money—and so on with no end in sight. Nearly every law to regulate our economic affairs lowers our standards of living and creates more poverty. These ill effects of legislation have been masked by our great gains in technology. But our scientists cannot forever overcome the evils done by the lawmakers.

Legislators pass innumerable laws to restrict trade. Just as tariffs are enacted to “*protect*” us from foreign competition, so we have domestic tariffs to protect us from domestic competition. Thus we have laws to promote labor unions, so that the worker getting high wages may be protected from the competition of those who would work for less; we have *fair* trade laws to protect the merchant who sells for high prices from the competition of the merchants who would sell for less; farm subsidies

and acreage restrictions to protect farmers who wish to secure higher prices by producing less; unemployment compensation to protect employed workers from the competition of unemployed workers; old-age pensions and youth-assistance programs to protect workers from the competition of the old and the young; taxes on chain stores to relieve independent grocers of chain-store competition; regulation of motor trucks to relieve the railroad of some of the competition from trucks; taxes on oleo so it will compete less with butter; profits taxes on efficient firms to protect inefficient firms; maintenance-of-membership clauses to protect the income of labor union officials; minimum wage laws to protect arbitrarily high wage rates; forty-hour laws to protect lazy workmen from the competition of more ambitious workers; public works projects to protect employed workers from the competition of the unemployed; building codes to protect builders and construction workers; and so on without end.

These laws, which make it possible for sellers to ask higher prices, cannot compel consumers to buy at the higher prices. The result of these restrictions and interventions is a reduction in output, a distribution of total output according to governmental favors, a curtailment of competition, and encouragement to monopolies.

How Government Can Help

Can the government create greater prosperity and help the people to produce and exchange? Yes. The government can help by repealing every law to regulate trade, wages, prices and employment and by restoring economic freedom. A full-employment law would be an attempt by government to cure the unemployment due largely to the laws passed to regulate business. Can the government help us? Yes. It can help by leaving us alone and by allowing us to produce and exchange freely.

The fraudulent theories of the economic medicine men reduce to this: “Everyone is to get more for what he sells and pay less for what he buys.” While all of us may attempt to apply this rule, and while some may succeed, it is obvious that we cannot all succeed in getting the best of the bargain. These flimsy economic fallacies are advanced by pressure groups who claim that their schemes for advancing their own interests will promote the general welfare.

For society as a whole production and consumption are equally important. But the individual, who gets his income from one source and spends this income in a thousand channels, feels that it is easier and more important to increase his income than to reduce his expenditures. A factory worker is more interested in getting a wage increase than he is in reducing the price of toothpaste, bread, gasoline, or shoes. The pressure on Congress comes from producers. But any law which helps produc-

ers will injure the consumers. Congress is therefore unable, by economic regulations, to increase the general welfare.

But we should not conclude that economic regulations are harmless. The regulatory process is like a cancer in the body politic—it grows. As it grows, the free society is imperceptibly transformed into a totalitarian state. It is only by rejecting *every attempt* to regulate our economic affairs by law that we can avoid the final catastrophe.

We will be safe if Congress and the President will obey the law—which is our Constitution designed to curb their ambition and their power. There is no article in our Constitution which gives to Congress

the authority to provide jobs for all. A right-to-work law would replace freedom with tyranny. From an economic point of view, it is a transparent fraud, designed to secure the political support of the labor unions. We should quit worrying about what the national income will be, or about the number who will be employed after the war.

The people will provide for themselves if Congress will remove the obstructions, restrictions and regulations which now shackle them. We should worry about the erosion of our liberties, and the extent to which we are accepting the doctrines of Karl Marx and rejecting the philosophy of our own Thomas Jefferson.

Omens of the Superstate Cartel

By J. Howard Pew

President of the Sun Oil Company

IN RECENT years there have been various pressures undermining our competitive enterprise system and pushing us toward a collectivist system under ever-expanding governmental authority. One of these pressures is monopolistic restraint of trade. The widespread movement that recently has come to the front to cartelize world trade under government control through so-called “trade accords” is, in my opinion, the greatest danger now threatening economic progress in America.

Business and industry render their greatest service to the nation when they constantly produce better products and services at lower prices through an efficiency that reconciles a low-cost policy with the payment of high wages. But that objective can be realized only through constantly increasing the productive efficiency of everyone engaged in business and industry. It cannot be achieved under the restrictions of bureaucratic control; nor can it be achieved in the face of feather-bedding practices, whether imposed by government, labor or the owners of industry; and it cannot be achieved if we are going to adopt policies that remove both the stimulus and the means to increased efficiency by reducing alike the rewards for seeking it and the penalties for ignoring it.

The First Premise

If you believe in that principle and its implications, then you cannot regard cartels, in any form, as good business practices. If you do not believe in that principle, if you favor collectivism in our economic life, national socialism, national ownership and all the other philosophies which lead to the all-powerful State, then you will find cartels an admirable instrument to achieve your objectives.

When I use the word cartel I mean an arrangement whereby two or more independent enterprises

undertake to restrict the production, fix the prices, and/or allocate markets or sales quotas covering commodities in which they trade. This is the so-called private cartel.

A government-controlled cartel is such an arrangement under the direction or with the sanction of the government having jurisdiction over such enterprises and it usually contains provisions for the enforcement of the arrangement.

A superstate cartel is an arrangement requiring independent enterprises to restrict production, fix prices and/or allocate markets, made pursuant to an international agreement or treaty between two or more governments which undertake in some manner to enforce upon their nationals the terms and conditions of such an arrangement.

Sanctified by Government

The private cartel embraces monopolistic practices in restraint of trade that have been outlawed in this country for more than fifty years. The evil and reprehensible nature of such practices is beyond dispute. Their effect has been to destroy initiative; close the door of opportunity for new individual entrepreneurs; destroy small business units; encourage inefficiency; raise prices and thus lower the standard of living. These fruits of the cartel system result in the freezing of industrial progress to the detriment of workers, consumers, and those with savings to invest.

Few voices today are openly raised in defense of the so-called private cartel. But there is a school of thought which believes that an undertaking which is against the general welfare, and thus bad, can be made good if it is conducted under government control. Illustrative of the government-controlled cartel were the NRA codes of a few years ago. There we have the government urging and even forcing

upon American industries practices, which, if undertaken outside of the NRA codes, would have been unlawful. Their counterpart has flourished in Europe for many years and is a primary reason for the backwardness of European industry compared with our own.

The superstate cartel is a relatively new evolution of the cartel idea, under the deceptive labeling of "trade accords." These agreements compound all the evils found in private and government-controlled cartels, adding to them a dangerous expansion of power in our Federal Government through the treaty-making device. Illustrative of the superstate cartel is the abortive Anglo-American Petroleum Agreement submitted to the United States Senate last summer, but subsequently withdrawn under pressure of the unanimous protest of the American petroleum industry. The objectives of this proposal were never clearly set forth beyond vague statements that the purpose was to bring about an orderly development of the world's oil resources through the stabilization of the operations of the industry.

By Other Names

Such euphemisms as "orderly development," "stabilization," "fair competition," "rationalized competition," "elimination of waste" and "fair prices" always are used to describe the objectives of a cartel. They are terms which should immediately arouse our suspicions and command our close scrutiny.

The Anglo-American Oil Agreement provided the framework for restrictions on the production of petroleum and its products, the fixing of prices and the allocation of marketing quotas upon the recommendations of an International Petroleum Commission. Inherent in the implications of the agreement was the assumption of an obligation by our Federal Government, when it concurred in such recommendations, to undertake to carry them out in the domestic field. This would necessitate the exercise by the Federal Government of an authority which it does not now possess under our Constitution, since jurisdiction over natural resources is among the powers reserved to the states in the Tenth Amendment.

The Federal Government would have gotten the authority to fulfil its part of the bargain made with other nations through the treaty-making power.

Our Constitution makes treaties the supreme law of the land, on a par with the Constitution itself, and overriding other federal laws, and state constitutions and laws which may be in conflict with the treaty. Thus the reserve powers of the state would, through treaties dealing with them, fall into the orbit of federal authority and jurisdiction.

As a matter of fact, such a procedure is the only lawful way, since the NRA was declared unconstitu-

tional, to cartelize effectively the American petroleum industry. Even were private cartels lawful, there are too many enterprises within the industry for any master plan to embrace all of them. Those outside of the cartel arrangement in a reasonably short time would succeed in defeating the conspiracy. To make a petroleum cartel effective here it must necessarily be implemented by the lash of governmental authority. What is more, the petroleum industry, by and large, wants no part of cartel action, since its growth has resulted from spirited competition. Here we had the amazing spectacle of the administrative agencies seeking to force an industry into a superstate cartel against its wishes.

The Short Way

Throughout the controversy over the oil agreement, it was difficult to avoid the conclusion that those who had proposed it were desirous of taking a short cut designed to change our American system over night to the status of the German system of national socialism. Just remember that the advocates of socialism long have proposed the promotion of cartels in the conviction that a system of extensive monopolies controlled by the State paved the way for a socialistic economy. The Fascists and Nazis seized upon existing cartel systems for the foundation of their totalitarian states. For those reasons I believe the superstate cartel is far more reprehensible and detrimental to the public welfare than private cartels entered into by individual companies, bad as they are.

Much of what I have said specifically in regard to the oil treaty would be applicable to similar undertakings affecting other industries. This use of the treaty-making power to override constitutional limitations and set the stage for transforming our American system into national socialism is a danger that may engulf all of us. During the controversy over the petroleum agreement, it was reported that similar international agreements were contemplated covering approximately sixty commodities and services in international trade. These were said to cover rubber, tin, sugar, coffee, shipping-cargo space and global airways. Undoubtedly others had to do with metals, leather, wool, cotton, chemicals, as well as manufactured articles that could be fitted into a cartel framework.

The list is sufficiently broad, if those plans are pursued, to encompass a large part of world trade in a superstate cartel system. More alarming, however, this movement would entangle a large part of our domestic economy in the tenacles of the vicious cartel system, with destructive repercussions upon every other line of economic activity. International trade and domestic trade are not two different things. They cannot be isolated in compartments, one from the other. They are parts of the same

thing. This country cannot be cartelized in its foreign trade and free in its domestic enterprise, any more than a nation can survive "half free and half slave." Once we start to regiment through allocations, price fixing and production controls our activities in the foreign field, we, of necessity, will have forced upon us, by the government, restrictive measures upon operations falling wholly within the domestic field.

The Superstate Cartel

Turning to the arguments advanced in behalf of the negotiations of these superstate cartels, we find the contention that cartels are a necessary device to safeguard industry and invested capital against unfair and destructive competition and the wastes which result from wide fluctuations in industrial activity—that they serve to permit the orderly development of industries and stabilize prices.

Now all of that argument begs the question of what is best for the general welfare. Like the League of Nation's definition that: "Cartels are associations of independent undertakings in the same or similar branches of industry established with a view to improve conditions of production and sales," it fails to state to whom the benefit or improvement accrues. The answer is obvious, since the primary purpose of cartels is to restrict competition.

Competition, bringing better products at lower prices, benefits the consuming public. So whatever restricts competition in the long run harms the public welfare.

Price stabilization usually means the establishment of a rigidity designed to protect high-cost and marginal producers. It destroys incentives for low-cost policies. Thus, cartels operate against the smaller or relatively newer enterprises which, through increased efficiency, are challenging the position of larger and older enterprises when the latter have become water-logged through plant obsolescence and inefficiency.

Arguments

Professor Anton de Haas of the Harvard Business School in a recent defense of cartels distributed, ironically, by an organization calling itself "American Enterprise Association," cites all of these justifications for cartels. He also attributes to the cartel the virtue of providing "equality of opportunity." This phrase contradicts itself. Since all men differ in talent, initiative and industry, creation of "equality of opportunity" would shut the door of opportunity for the efficient, and drag them down to the level of the inefficient.

Much written in defense of cartels makes little sense to me. We find, for instance, Milo Perkins, former executive director of the Economic Warfare

Board, concluding a recent magazine article with the assertion that: "Where we cannot eliminate cartels, we must gradually perfect ways to make them into instruments which serve the public interest." But at the beginning of the article, emphasized by italic type, Mr. Perkins states: "All cartels are in business to keep prices at levels which could not be held if free competition existed." In other words, Mr. Perkins in one breath asserts cartels are devices for rooking the public, and in the next breath that such devices can be made to serve the public interest.

Another group asserts that although in normal times cartels may be undesirable, they are necessary devices for short terms in periods of depression to prevent the too precipitous drop in price levels, which have disastrous consequences. I suppose that here and there a showing of facts could be made to sustain that conclusion. But it also could be demonstrated that the operation of cartels creates depressions and prolongs them. The danger in resorting to cartels during emergencies is that the cartel survives after the real emergency has passed.

Why This Haste?

Aside from all of that, however, it is significant this argument is put forth at this time by the cartel advocates. This country does not face a postwar depression. This approach to postwar problems is illustrative of the defeatist attitude marking the economic thinking in Washington during the last twelve years. Too much Washington planning is being done under the shadows of the past. These planners should approach the problem in a venturesome spirit determined to seize upon the great opportunity presented for a dynamic expanding economy, the only hope for the restoration of full employment in this country.

Some argue that American participation in superstate cartels is necessary to assure lasting peace. I remind them it was cartels, subsidies, unduly high tariffs, bartering and governments trading with other governments, which generated so much of the economic friction preceding this war. The cartel idea had its origin in Germany. When Adolph Hitler seized power he found in the cartel system a completely forged weapon for his program of rearmament and war.

This peace argument is based upon a corollary contention that they are necessary to expand world trade. Actually cartels operate to contract world trade. At best, they might serve to transfer markets from one nation to another without increasing the total of world trade. But if the ills of the world are to be healed through international trade, then the volume of international trade must be expanded. New consumer markets must be created and this can be done only through the production of better goods for sale at lower prices.

A healthy foreign trade is essential to our well-being as well as that of the rest of the world. Our government should be vigilant in opening and preserving trade opportunities abroad for American business and every effort, compatible with our national interest, should be made to expand world trade. Our volume of world trade, proportionately small as it has been, is of great importance to our economic life, particularly to those industries largely dependent upon export business. But this foreign trade is not worth the price, if that price is abandonment of our competitive enterprise system and placing our domestic economy in a totalitarian strait jacket.

Finally, we hear it said our participation in super-state cartels is inevitable. The argument goes that most of the world has embraced cartels and there is nothing that we can do about it. Thus, we are urged to climb aboard the cartel bandwagon, even though it means the destruction of a system at home which has given our people the highest standard of living ever achieved anywhere at any time upon this earth.

As Friedrich Hayek wrote in his excellent book, "The Road to Serfdom," nothing in social evolution is inevitable unless thinking makes it so. Who can be certain that other nations will remain wedded to the cartel system? Events in Europe have not progressed far enough to indicate definitely the political and economic desires of the people upon the European continent. Nor are the English united in support of cartels. Recently Prime Minister Winston Churchill called upon the Conservative party to make private enterprise *versus* collectivization, and liberty *versus* controls, the issues of the forthcoming election. The London *Economist* thunders that cartels and other forms of collectivism are will-o'-the-wisps leading Britain to disaster.

Measures

Assume that we must live in a world which outside our borders is wedded to the cartel system. Then we should use our great economic power to give world leadership and direction toward a more universal adoption of the competitive enterprise system. For instance, when the war in Europe ends,

there will be billions of dollars of Lend-Lease material that can be converted to peaceful industrial use—perhaps as much as thirty billions worth. In disposing of that surplus material in the countries in which it is stored, let us attach a condition that none of it may be sold or given to any enterprise that is a party to any cartel arrangement. There have been suggestions in Congress that the surplus war material in this country should not be sold to monopolistic enterprises. There is no reason for any less exclusive requirement for the disposal of surplus material abroad.

Again, why should not Congress enact legislation making it unlawful for America to lend money to foreign enterprises participating in cartel arrangements. Such action would apply to foreign loans the prudence and common sense exercised at home by bankers against lending to enterprises engaged in practices destructive of their markets.

Pending before the Senate are the Bretton Woods monetary agreements. One of these provides for establishment of the International Bank for Reconstruction and Development with a capital of eight billion eight hundred million dollars, of which this government would be obligated to provide two and three-quarter billions of dollars. In ratifying that agreement, why should not the United States Senate attach a reservation providing that no part of this sum may be loaned to any enterprise participating in cartel arrangements. We also could shut out of our rich market foreign monopolists set on discriminating against us and thereby driving us into a totalitarian economy. I am not proposing that any of these things be done. I merely suggest courses of action open to us as protective measures against countries, if any there be, attempting to strong-arm us into cartel arrangements.

Let us not be beguiled by emotional appeals and glittering promises, but let us give sober reflection to *The Wall Street Journal's* recent observation that "No people ever entered the compulsory state through a door on which the price of admission was plainly posted." Through the doors of super-state and government-controlled cartels lies the road that leads to nationalism, isolationism, totalitarianism, and finally, to another disastrous war.

NO other kind of currency system in a distracted postwar world will so quickly restore the confidence of the public as a true gold standard. No other kind can be made so simple, so easily understood. That means much for the monetary system of a democracy. Can there be any doubt what the verdict would be if you should put to a popular vote in the United States today the question: In what kind of a dollar would you prefer to have your social security and your government bonds payable, a gold-standard dollar or a managed paper-money dollar?—*Edwin W. Kemmerer.*

Formation of Human Capital in the U.S.S.R.

THE new measures adopted by the U.S.S.R. to promote the formation of what Pareto called *les Capitaux personnels*, meaning population, are set forth in a decree published July 8, 1944, as follows:

"In order to increase material aid to expectant mothers, mothers of large families and unmarried mothers and to encourage large families and increase the protection of mother and child, the Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics resolves:

"First, to increase state aid to mothers of large families and unmarried mothers.

"Payment of state allowances to mothers of large families is to be effected as follows: On the birth of the third child to a mother with two children, a single grant of 400 rubles. On the birth of a fourth child to a mother with three children, a single grant of 1,300 rubles and a monthly allowance of 80 rubles. On the birth of a fifth child to a mother with four children, a single grant of 1,700 rubles and a monthly allowance of 120 rubles. On the birth of a sixth child to a mother with five children, a single grant of 2,000 rubles and a monthly allowance of 140 rubles. On the birth of a seventh child to a mother with six children, a single grant of 2,500 rubles and a monthly allowance of 200 rubles. On the birth of the eighth child to a mother with seven children, a single grant of 2,500 rubles and a monthly allowance of 200 rubles. On the birth of a ninth child to a mother with eight children, a single grant of 3,500 rubles and a monthly allowance of 250 rubles. On the birth of a tenth child to a mother with nine children, a single grant of 3,500 rubles and a monthly allowance of 250 rubles. On the birth of each subsequent child to a mother with ten children, a single grant of 5,000 rubles and a monthly allowance of 300 rubles. . . .

"If an unmarried mother wishes to place her child in an institution for children, said institution is obligated to accept the child, who will be maintained and brought up fully at the expense of the state.

"Second, to increase the privileges for expectant mothers and mothers, and on measures for extending the network of institutions for the protection of mother and child.

"To increase maternity leaves for women factory workers and office employees from 63 to 77 calendar days (35 days before and 42 days after childbirth), with payment during this period of the state allowance in the amounts fixed heretofore. In the event of an abnormal birth or the birth of twins, postnatal leave is to be extended to 56 calendar days.

"Managers of enterprises and institutions must grant expectant mothers annual vacations, which must be timed to precede or follow maternity leave.

"After four months' pregnancy, women are not to be given overtime work at enterprises and institutions, and women with infants are to be exempted from night work throughout the period of nursing.

"To double additional food rations for expectant moth-

ers beginning with the sixth month of pregnancy and for nursing mothers during four months of nursing.

"Managers of enterprises and institutions must render aid to expectant mothers and nursing mothers by issuing additional food products from auxiliary farms. . . .

"Third, on the institution of a Motherhood Medal and the Order of Glory of Motherhood; on the establishment of the honorary title Mother Heroine.

"To institute a Motherhood Medal, First and Second Class, for award to mothers who have given birth to and reared six and five children respectively.

"To institute the Order of Glory of Motherhood, First, Second and Third Class, for award to mothers who have given birth to and reared nine, eight, and seven children respectively.

"To establish that the title of Mother Heroine is to be conferred upon mothers who have given birth to and reared ten children, this award being accompanied by the presentation of the Order of Mother Heroine and a scroll from the Presidium of the Supreme Soviet of the U.S.S.R.

"The award of the Order of Glory of Motherhood and the Motherhood Medal, as well as the Mother Heroine title, comes into effect when the last child born reaches the age of one year, if the remaining children from the same mother are living.

"Fourth, on the tax on single men and women and citizens with small families.

"In modification of the Edict of the Presidium of the Supreme Soviet of the U.S.S.R. of November 21, 1941, 'On the tax on single men and women and childless citizens of the U.S.S.R.,' tax will henceforth be levied upon citizens who have no children and on citizens who have one or two children: for men over twenty and up to fifty years of age and for women over twenty and up to forty-five.

"The tax is to be levied in the following amounts:

"(a) Citizens paying income tax will be taxed to the extent of six per cent of their income in the absence of children, one per cent if they have one child and one-half per cent if they have two children.

"(b) Collective farmers, individual farmers and other citizens of households subject to the agricultural tax will be taxed to the extent of 150 rubles annually in the absence of children, 50 rubles annually if they have one child and 25 rubles annually if they have two children.

"(c) Other citizens having no children will be taxed 90 rubles annually, those with one child 30 rubles annually and those with two children 15 rubles . . .

"Fifth, on changes in laws on marriage, family and guardianship.

"To establish that rights and obligations of husband and wife provided for under the Code of Laws of the Union Republics on marriage and family, *re* guardianship, accrue from legally registered marriages only. Persons who have been married *de facto* prior to publication of the present edict may legalize their relations by registering the marriage and stating the actual period of their conjugal life. . . .

(Signed) M. KALININ, Chairman of Presidium of Supreme Soviet of U.S.S.R.

A. GORKIN, Secretary of Presidium

Moscow, Kremlin, July 8, 1944

Notable Editorials

Thirty Pieces of Silver

The Railway Age

IT MUST now be evident to any discerning person that the decay of our political and economic freedom is far advanced, and that it has its origin primarily in the realm of moral conduct. The disintegration of the old American principle of a government of limited powers cannot be blamed in the first instance upon the economic ignorance of the electorate, deep as that is—but rather on the inconsistent behavior of business leadership. . . .

With public opinion being continuously “educated” to look upon taxpayers’ aid to aviation or highway or waterway transportation as “helpful to business,” and hence praiseworthy—how is it possible for the same popular audience to believe that parallel governmental intervention in behalf of agriculture, organized labor, and the consumers of electric power or manufactured products is reprehensible? Having been persuaded by business that “interventionism” in behalf of business is desirable, the electorate is left without any defense to appeals that it support similar intervention in behalf of other elements in the community which are obviously far more deserving of political assistance—if it is to be given to anybody—than business is. The point is that it is business’ quest for special favors which has initiated and continues to supply fuel to the whole fateful chain of extension of political power throughout the economy. Business leadership with the moral discipline of its forefathers would not thus have sacrificed principle to a temporarily profitable expediency.

Thus it is that the economy is threatened with socialization and ruin, principally because its leaders refuse to set an indispensable example of candor and integrity; they lack the moral fortitude to obey their professed principles of reliance upon free and self-supporting enterprise where betrayal promises larger immediate advantage.

The great biologist, Alexis Carrel, recently deceased, observed ten years ago that weakening of character is usually followed by a failure also of the intelligence; and that in almost every country of the world a deterioration was observable in the intellectual and moral qualities of those charged with leadership.

The 60 Million-Job Riddle

The St. Louis Globe-Democrat

WHEN President Roosevelt made his famed pledge of 60,000,000 postwar jobs, it looked like just another preelection rabbit pulled out of the political hat—a rabbit of doubtful legitimacy, but nonetheless impressive to most voters. It aroused little comment that he

failed to analyze the need or quote authority for the figure.

In view of subsequent events, that avowed goal, however, now takes on the appearance of a vital part of the Fourth New Deal.

By his pledge the President arbitrarily set a goal which he indicated the nation’s business structure must meet—apparently without consulting business or any other experienced source on either its need or its feasibility. Yet his prestige gave the figure wide acceptance at face value. For this reason if private enterprise fails to attain that level of employment, it will be private enterprise which is blamed, even though it had no part in the pledge.

So let’s examine the validity of that figure and the possibility of meeting it.

The Census Bureau estimates our postwar population (1946-47) will be about 140,000,000 persons. In order to arrive at the size of the actual postwar labor force, we must subtract certain classes, including those individuals who have taken jobs only under pressure of the war emergency.

These classes are the 33,300,000 youngsters under fourteen years of age, the 11,200,000 others who will be in school, the 30,400,000 housewives and former women workers who will have no desire to work after the war, the planned standing army of 2,380,000 troops, the 8,800,000 persons sixty-five years of age or over, the 2,500,000 undesirable characters on the economic border line, such as racketeers, confidence men, and plain bums, the 1,800,000 (between ages 14 and 65) inmates of penal institutions and hospitals for the mentally defective and the permanently disabled or chronically ill, the 800,000 who may be expected to take up residence abroad, and the 80,000 who will voluntarily retire at age 60. With these deductions we arrive at a probable postwar labor force of 48,740,000, or nearly 5,000,000 more persons than were employed in 1940.

It follows that if 48,740,000 postwar jobs are provided, there will be one for everyone in the United States who wants to work. Hence, if the President’s 60,000,000 jobs are to be filled, it will mean taking 11,260,000 youngsters out of school or women out of homes by almost as drastic a labor recruiting campaign as was necessary to achieve our war production record. The alternative is to persuade the over-age, the bums, the ill, the mentally defective to take the balance of the jobs Mr. Roosevelt says business must provide.

It is ridiculous to suggest President Roosevelt didn’t and doesn’t know this. Clearly then the goal was set for one purpose: To provide the New Deal with a club with which it can drive private business into the postwar dog house, however creditable its performance.

With this device assured to induce at any time a public clamor for government pump-priming, the next step was to get the Reconstruction Finance Corporation out of the conservative hands of Jesse Jones and into more liberal ones. Obviously the RFC, a \$32,000,000,000 structure of lending and operating agencies, with its loans and ownership of competitive plants giving it the power to coerce or even destroy virtually any segment of the nation’s industry, would be an invaluable blackjack toward a socialized economy.

Jones had made an excellent and profitable showing as head of both the RFC and Commerce Department, but there was no chance he would tolerate the desired lavish scale of handouts. Mr. Roosevelt also had Mr. Wallace and Mr. Hillman to take care of.

Hence the brazen "Dear Jesse" ouster letter and Wallace nomination, which presumably simultaneously cleared Roosevelt with both Sidney and Henry. There were hints the notorious missive was not intended for publication, but the ensuing silence of the White House indicated the President had been aware a congressional explosion would follow and was indifferent whether Wallace was confirmed to either or neither post. If the starry-eyed Iowan was not allowed to take control of the RFC, there were plenty more moonbeam boys Mr. Roosevelt could nominate until one was finally confirmed.

Thus the major parts of postwar fiscal fantasy were in readiness—the "proof" that business could not supply all the jobs and there face the need of a free-handed gentleman in charge of the agency which could ladle out funds in a volume to make New Deal I benevolence look miserly.

As Jones himself testified, the RFC "can make loans in any amount, for any length of time, at any rate of interest, to anybody." And the probable application of that power was revealed by Wallace's statement supplementing the President's earlier liberal views, that "an adequate program must provide America with 60,000,000 productive jobs," with the government starting the pump-priming when the level drops below 57,000,000. This plan, meantime, was implemented by Senator James E. Murray's resolution providing that full-scale federal spending shall begin any time national employment goes under an arbitrary figure, probably Mr. Wallace's 57,000,000.

All of which adds up to a government guaranty that more persons shall have postwar jobs than want them.

However, even the cosmic planners admit this will cost money. If New Deal IV is to police our social and economic lives, the government must underwrite the expense, even though it has a public debt costing \$4,500,000,000 a year in interest alone.

To plug this loophole a new term is dragged out—the horrendous evil of "oversaving"—a word by which individual thrift for a rainy day is branded as antisocial if not downright economic sabotage. To discourage this reprehensible hangover from Benjamin Franklin's tenets, the government must tax these savings into the Treasury, from which they will be shoveled into a sort of state socialism to provide the jobs the omniscient state thinks are needed.

Naturally it would be unthinkable for business to be so encouraged and freed from restraints that these same savings would be attracted directly into it as investment funds, with better employment results.

The Senate has just passed the George bill which divorces the RFC and its subsidiaries from the Department of Commerce, with prospects rather bright for Wallace's confirmation for the secretaryship. However, the George bill relates merely to the RFC and its allied agencies. There are some thirty-four other lending-spending bureaus which the President, if he chooses, could transfer to Wallace and their authority extends to funds almost as large as those commanded by the RFC.

Congress' duty, then, is only part done with the RFC divorcement. It must make certain that the new Director of the RFC and its subsidiaries is not just another Wallace

and it should apply the same scalpel to the government borrowing agencies which are still within the President's gift to the Secretary of Commerce. House debate on the George bill indicates something of the kind may be done.

Whether Congress will have the courage to act under pressure of inspired public fears of widespread unemployment will determine if all of us are to have a uncontrolled joy ride to complete management by government.

Why Is Business There?

The Wall Street Journal

NO PEOPLE ever entered the compulsory state through a door on which the price of admission was plainly posted. Not even the Germans, who seem to like regimentation more than they value freedom, did that.

There are other entrances well camouflaged, sometimes with one pretty theory and sometimes with another. But underneath the glitter of slogan and economic scrollwork they are the same. Those who pass through them have a sense of carefree well-being, of having deposited their burdens outside. They seem to be traveling a smooth and sunlit road and they proceed under a peculiar enchantment, for while they can see where the road has taken others, they are blind as to their own destination.

The road we look at now is paved with things labeled subsidies, government guaranties, floors under this, ceiling over that, government partnership. Traveling the road are three caravans: agriculture, labor, and business.

Agriculture has been on the way for a long time. Many of the caravan already see the smooth highway leading into the jagged rocks of compulsion. Some would like to turn back, but when they look the pleasant road seems to have closed in behind them.

In the labor caravan there are fewer misgivings. Mostly its members are bedazzled with some pretty new baubles of power. Perhaps, they think, there are more of these ahead and they want to push on.

The business caravan lectures its fellow travelers. It tells them about "free enterprise" and it warns them gravely that their yearnings for security will bring them to a bad end. But the other two look puzzled and say, "Then what are you doing here?"

Well, as a cold, practical matter, business has less reason to be there than either labor or agriculture. Those two constitute numerous and comparatively cohesive groups, which control votes and so have political power. At least in the compulsory state they might be represented on the committee.

Business is not cohesive. By its very nature it is as diverse as the American landscape. Its political power is represented by no more than zero and it is probably a minus quantity.

So what is it doing there?

The Compulsory State

The Wall Street Journal

INTERNATIONAL economic cooperation need not involve exercise of compulsion on the domestic economy. But such a thing may be involved. And as various agencies for the proposed cooperation appear, there is growing evidence that it is contemplated. The fact that the sponsors of these agencies employ the language of the free market does not change the situation either.

The Government of the United States is proposing to make certain commitments to other governments in respect to raw materials, finance and transportation. It is hard to see how this government can hope to fulfil those commitments unless it is to have the power to compel concerted action which would decisively affect internal business and financial conditions.

To carry out its promises, the government would have to assume a partial control which would soon grow to complete control.

A wheat agreement covering export quotas already exists. Washington officials quite frankly say that if the government is to carry out those commitments, crop and acreage control must be reinstated and strengthened. Some students of agriculture—none in the government so far as we know—foresee communal farming. They are at least logical for that is the final destination of controlled farming.

In the process of redrafting is an oil agreement with Great Britain. The oil men want assurance that they will not be prosecuted for doing something that the government orders them to do in carrying out this proposed agreement. Apparently the Department of State cannot give the assurance. The Attorney General will not, which is altogether proper because he is charged with enforcement of anti-monopoly laws. It must be clear that unless a governmental demand for concerted action on part of the industry is a possibility under this treaty, the present impasse would not arise.

There are to be other agreements covering other commodities and if wheat and oil are a sample, the aggregate of government powers under these agreements, when and if they are implemented, is likely to be considerable.

But if one wishes to see a hidden grant of blanket power, the place to look is in the agreement for the so-called Monetary Fund, the product of Bretton Woods. We will let its sponsors point the way.

Writing in the quarterly *Foreign Affairs*, Harry D. White, Assistant Secretary of the Treasury and chief sponsor of the Monetary Fund plan, has replied to criticisms that the dollar supply of the Fund might be rapidly exhausted; in other words that the Fund would offer other nations an opportunity to purchase American goods beyond their capacity to pay for them. Mr. White wrote:

"Long before any acute scarcity of a currency develops, the Fund would have considered the situation and taken whatever steps were feasible to remedy it. The Fund might find that the principal cause of the difficulty was excessive imports by countries utilizing the Fund, and it would require corrective measures as a condition of continued use of the Fund's resources by such countries. The Fund might find that the causes of the scarcity were high trade barriers in the country whose currency was scarce, or a failure to undertake adequate international investment, and it would propose appropriate remedies."

So if nations buy beyond their immediate capacity to pay and can no longer get dollars to buy more, an international body, on which the embarrassed buyers sit, can draw up proposals suggesting American tariff changes or relaxing American investment policy. Either or both would have sweeping effects on domestic business and finance.

Well, we don't have to obey the recommendations of the Fund.

Technically we do not. But when we join the Fund we have made a commitment to the other participants. In good faith, we must carry out the commitment in any circumstances. And in this particular circumstance we are the

principal sponsors of the Fund. So are we in position to disregard it?

Nor does the Fund have to wait until there is a scarcity of dollars before giving its advice. If it sees a scarcity of a currency developing, it may make recommendations.

In the face of the fact that the Fund is an American baby and that our utmost efforts to make it breathe are implicit, Mr. White says, "very definitely this country assumes no moral responsibility for a scarcity of dollars." There may be other ideas of what constitutes a moral responsibility.

Mr. White seems to base his statement on the fact that at Bretton Woods the American representatives gave some memoranda to representatives of other nations and he quotes from one: "In such cases (scarcity of a currency such as dollars) the responsibility for the correction of the maladjustment is not a unilateral one. It will be the duty of the Fund to make a report not only to the country whose currency is scarce but also to the member countries who are exhausting or are using the resources of the Fund in a manner which is not consistent with the purposes of the Fund."

Very well, but a moral responsibility is not dissolved when one expert hands memoranda to another. And if there were no misgivings on the point, why the memoranda in the first place?

Once the United States becomes party to this Fund there is a moral responsibility of a very special kind and circumstances can arise where the government, if it is to discharge that responsibility, must make the citizen conform.

Well, all of that gets into the intricacies of international finance and Mr. White's chief, Secretary of the Treasury Morgenthau, has told us in plainer terms what this Fund is about and what it would accomplish in the way of imposing controls.

Answering criticism of the American Bankers Association, Mr. Morgenthau was reported by the Associated Press as saying:

"It has been proven so far as I am concerned that the people in the international banking business cannot run successfully foreign exchange markets. It is up to the governments to do it. We propose to do this, if and when the legislative bodies approve Bretton Woods."

It is permissible to wonder if Mr. Morgenthau realized the scope of that statement.

Very few people have cause to transmit money abroad or to receive it from abroad and the process by which it is done seems remote and not very important. Of course, the fact is that the control of that process can affect everyone.

When Hitler took over, one of his first acts was to tighten an already existing foreign exchange control. Because one German above all others knew that subject, he took that man, Dr. Schacht, into the inner state councils although Schacht had not been a Nazi. By that one act more than any other Hitler took control of the German economy. He did more than that. He reached outside Germany, for whoever, any place, had dealings with a German could not receive pay unless the foreign exchange control allowed it.

Control of foreign exchange means control of a nation's life. Industry could not buy materials abroad unless it could get means of payment and there is no industry which does not directly or indirectly depend on imported materials. Neither could it sell abroad, if the control willed otherwise. A citizen could be prevented from traveling abroad. Foreigners could be barred from these shores. Any publication or literature displeasing to the control could be barred.

Of course Secretary Morgenthau does not mean to do any of these things. He is not that kind of a man. He is an earnest and sincere man.

Nevertheless, he tells us that he hopes to set up a power under which those things would be possible. He could scarcely say it more plainly. If nobody ever used the power, its existence would be bad. Some day under some circumstance, it will be used.

World economic cooperation does not require these instruments of power; indeed they are a denial of the avowed purpose.

The sponsors of these mechanisms condemn trade barriers and nationalistic controls. But while they condemn them, they are busy evolving systems that would make them respectable. They pursue that will-of-the-wisp "stabiliza-

tion," either neglectful or unaware of the fact that every monopolistic arrangement men ever created, every barrier with which a nation sought to protect itself, could rightfully claim that purpose.

International economic cooperation should look to the removal of controls. As it is sketched to us it is imposing more. They may be in different hands but they are controls nevertheless.

No nation can turn its external trade over to government controls and have its internal economy remain free. The two are part of the same thing.

The sponsors of these control mechanisms may have no such intention, but they are mounting a flank attack that will drive us into the compulsory state without our completely realizing where we are going or how we get there.

Noble Negatives

The Economist, London

When copies of The Economist, Dec. 30, arrived in this country several weeks later, the furor caused by its bitter editorial on Anglo-American relations had subsided, everyone having accepted the explanation that it was a friendly experiment in political catharsis. The newspaper accounts were limited to a few quoted sentences, paraphrase and comment. Here is the complete text.

THE British have been having a bad time in the United States of recent weeks. The outburst of criticism and abuse has been one of the most violent and sustained of the war years. The trouble started with British policy in Italy, where the much-misunderstood (and quite inadequately explained) ban on Count Sforza brought a moralizing rebuke from the State Department. The fat was really in the fire with the outbreak of fighting in Greece, and the Prime Minister's latest speech on Poland redoubled the fury. Those who blamed the Greek policy for being too anti-Russian, and saw in it a sinister proof of British "balance of power" policy, blamed the Polish policy for being too pro-Russian and too clear a sign of a sinister "spheres of influence" bargain. With these the main occasions of offending, the old familiar complaints have been added in full measure. Britain is stealing a march on the poor repressed American exporter. Britain has no intention of fighting the Japanese. Britain is not really fighting in Europe—it is even a subject of complaint that Rundstedt did not select the British-held front for his break-through. Britain is imperialist, reactionary, selfish, exclusive, restrictive. Britons spend half their time imitating Lord North and the other half of their time aping Dr. Schacht.

All this is painfully familiar. The only novelty in the present epidemic is the evidence that the American Government itself—or at least some parts of it—is more anxious to provide ammunition for the malcontents than to correct their wild misstatements. While the outbreak lasts there is nothing that the British representatives in America can do about it. But each time there is one of these outbursts it becomes harder simply to grin and bear it. In the sixth year of an exhausting war, in which the British people have received many kicks and lost all

their ha'pence, not much tail twisting can be borne in silence. If only to act as a safety valve, and prevent worse happening, some very plain speaking is long overdue, and perhaps a journal whose general approach to the problems of the world is so obviously Americanophile as is that of *The Economist* is the right place for the plain speaking to appear.

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Hypocrisy is a common Anglo-Saxon failing—indeed, a failing of the rich and comfortable all over the world—and the British have many times made themselves cordially disliked by it. But that does not exempt them from feeling resentment when they are the objects of other people's hypocrisy. What makes the American criticisms so intolerable is not merely that they are unjust, but that they come from a source that has done so little to earn the right to postures of superiority. To be told by anyone that the British people are slacking in their war effort would be insufferable enough to a people struggling through their sixth winter of black-out and blockade and bombs, of queues and rations and coldness—but when the criticism comes from a nation that was practising cash-and-carry during the Battle of Britain, whose consumption has risen through the war years, which is still without a national service act—then it is not to be borne. The latest turn taken by criticism is that British policy in Greece and Poland has killed the Atlantic Charter—and this comes from the country where both political parties were ready to promise, in the hope of securing the electoral vote of New York State, that they would force a wholly Jewish State on the Arab majority in Palestine. Or, it is complained that the British are seeking a sphere of influence—when anybody with any knowledge of facts or appreciation of probabilities can see for himself that nothing is being, or could be, sought by the British half

as dominating and exclusive as the sphere of influence created by the Monroe Doctrine. Again, criticism of the British for playing "balance of power politics" (whatever that may mean) comes from the very mouths that call for the annexation by the United States of all the convenient naval bases in both oceans. It is complained that the British return neither gratitude nor promise of repayment for lend-lease—yet the lend-lease act itself declares that nothing shall be given that is not necessary for the defense of the United States.

* * *

How can the ordinary Englishman be expected to listen without mockery to all the lofty moral generalities that are proclaimed in America, when he hears them against such a background? Neither in Greece nor in Poland, neither in India nor in Palestine are the American pronouncements combined with any willingness to get down into the dust of the arena and attempt to work out, within the limits set by human imperfections, a policy that will be both right and feasible. The ordinary Englishman remembers Woodrow Wilson's statement that the United States is the only idealistic country in the world—and he also remembers that the only Great Power that made any effort to achieve Wilson's ideals in hard practice was Great Britain. With every outburst of righteous indignation in America, the ordinary Englishman gets one degree more cynical about America's real intentions of active collaboration, and one degree more ready to believe that the only reliable helping hand is in Soviet Russia.

This is the popular, the instinctive reaction. Policy, however, should not be based on emotions and instincts but on cool calculation. At what the Americans call the "policy-making level," the effect of each of these recurrent spasms of Anglophobia is to raise, each time more seriously, the question of the extent to which British policy can safely be shaped in reliance on American collaboration. Just how much British safety can be gambled on American good will? In the political sphere, is it right to refrain, in the hope of obtaining American support for a general and universal system of security, from making special arrangements to assure British security? In the economic sphere, is it right to surrender the means of safeguarding British interests, as Bretton Woods and the American commercial proposals would have us do, in the hope that American policy will be stable and sound? In general, how much purpose is served by painful attempts to adjust British policies to American wishes? It is plainly right to pay some price for an American policy of genuine collaboration. But is the price we are asked to pay too high for what we are likely to get? These are the questions that are inevitably asked. They can be answered only by asking two more. How much more shall we get by trying to please the Americans? And how much less shall we get by going our own way?

The opinion was expressed in these columns immediately after the recent election, that it was a defeat for the isolationists rather than a victory for genuine collaboration. It was not to be expected that confirmation would be so quickly forthcoming. Perhaps the most significant event of the last few weeks has been the readiness of Senator Ball, the extreme advocate of "internationalism," to make common cause with Senator Wheeler, the unrepentant isolationist, and to threaten "withdrawal from Europe," if American wishes are not immediately complied with. Collaboration, it appears, is not a policy to be pursued

in America's own interest, but a reward to be offered to European nations so long as they are good, and withdrawn when they are bad. If so, it is not a policy that can be relied upon.

Moreover, it is important to realize that "collaboration" is universally defined in America as meaning only membership in the security council and its related organs and subscription to their funds. It does not imply anything at all about the policy to be pursued within these bodies. In so far as the question of policy has been raised at all in the current discussion, it has normally been to make it clear that there can be no promises, no commitments, no "automatic" obligations. A complete victory for Senator Ball's internationalists could still mean that the American delegates could go to the international meetings, as Philip Guedalla once said of the Baldwin Government, like inverted Micawbers, waiting for something to turn down. Nothing in fact has yet happened to show that American policy has emerged from the state that Mr. Lippmann calls "noble negatives"—and unfortunately the negatives are of more direct practical relevance than the nobility.

* * *

There is still a great deal of wishful thinking in Britain, even in the highest quarters, to the effect that good behavior on our part will procure some great prize, such as an Anglo-American alliance, or an American guarantee, specific or general, of British territorial integrity, or at least a promise to put down aggression wherever it may appear. It is as well to be brutally frank: there is no more possibility of any of these things than of an American petition to rejoin the British Empire. All that has yet been decided is that the noble negatives will be uttered inside the conference room instead of from outside. If all other nations were of impeccable character and behavior, it is doubtful whether the present generation of Americans would promise any more. And given the rough and tumble of international life, it is most improbable that we shall get any more by trying to be good.

How much less are we likely to get by going our own way? In great crises, nations see their interests clearly, and if the ultimate extremity of 1940 should ever repeat itself, American action would be the same. No nation surely ever tried harder to keep out of war than the United States between 1935 and 1940, but to no avail. No country surely ever blotted its American copybook more carefully than debt-defaulting, appeasing Britain, and yet we were given the aid we needed. It is true that there is a great difference between lend-lease and cash-and-carry, but whether in some future crisis we are offered the one or the other will depend infinitely more on the circumstances of the time than on anything that is done now. There is, of course, some risk of stirring up in the American memory a resentment so fierce that, after many years, it would still outweigh manifest national interest. But the risk is smaller than will be run by sacrificing to the dwindling chances of real American cooperation what we believe to be essential interests of our own.

What, then, is the conclusion for British policy towards America? Clearly it is not that any quarrels should be picked. Quite on the contrary, every reasonable precaution should be taken to avoid giving offense. Nor should the hope, slender as it may be, of encouraging a genuine American collaboration be abandoned; on the contrary, it should be fostered by every reasonable means. But it is not reasonable so to fashion the peace settlement that it

will entirely collapse if the hope is disappointed—that is, to have no alternatives to a dependence on American aid. And it is not reasonable to suppress legitimate British interests simply because they offend American susceptibilities. Let there by all means be a continuance of the policy of friendship and cooperation, and even of patience and forbearance under provocation. But let an end be put to the policy of appeasement which, at Mr. Churchill's per-

sonal bidding, has been followed, with all the humiliations and abasements it has brought in its train, ever since Pearl Harbor removed the need for it. Henceforward, if British policies and precautions are to be traded against American promises, the only safe terms are cash on delivery. And, if Americans find this attitude too cynical or suspicious, they should draw the conclusion that they have twisted the lion's tail just once too often.

Free Enterprise Is Free

A Letter from V. Orval Watts to the Editor of the Free Press, Winnipeg, Canada

Dear Sir:

In your *Free Press* editorial of December 7 entitled, "The United States Must Decide," you say, "If the United States refuses to sponsor its recovery, private enterprise will die everywhere. Only the United States . . . can put private enterprise back on its feet." Do you mean to imply by this that liberty is a luxury which Canada and other nations can afford only through the liberality of the United States? For private enterprise is only individual liberty.

Either private enterprise is a more efficient way or organizing human effort or it is not. If, as some of us believe, it is the best way to encourage industry, thrift and enterprise, then Canada, along with other nations, will need it after the war regardless of United States policies. In fact, the more any nation is impoverished and the more its opportunities are restricted by the stupidity and shortsightedness of other countries, the more it needs private enterprise to release to the utmost the maximum energy and intelligence of its peoples.

On the other hand, if production and trade can be better promoted by government controls, tariffs, cartels and "managed currency" (fiat money), why should the United States be asked to deny itself such "advantages" for the sake of giving to foreign countries the "luxury" of liberty?

Anyone who really believes in free enterprise says: "It is regrettable that enterprise in foreign lands is burdened and restricted by tariffs, monopolies, and depreciating currencies. These burdens and restrictions make our competition a little easier in some cases, but still more often they restrict our markets. At least, let our own nation avoid such follies, which increase costs of business, discourage investment, restrict trade, and reduce demand for labor."

The argument that one nation must restrict private enterprise because other nations do so has long been used by restrictionists of every sort. However, I believe that history shows it to be wholly fallacious. The United States nation came into being and established for its citizens an unexampled liberty at a time when other nations were indulging in every type of "protective" and restrictive device. Foreign trade was highly important for this new country, which had scarcely begun to develop its manufactures and had not yet discovered or developed its wealth of material resources. Nevertheless, it prospered and progressed as few nations have done before or since.

Only as the United States became rich and powerful did it begin to develop the "protective" tariffs which have become so burdensome to the commerce of the world. Only after it had become the richest nation in the world did it move into a "managed economy."

Great Britain had much the same experience. She adopted free-enterprise policies, not in concert with other nations, but without regard for their monopolies, subsidies and restrictions. Nor was she at the time the predominant trading nation which she afterwards became. Instead, she progressed in wealth and won a predominant position in world trade as her merchants were freed from the "protection" and grants of monopolistic privilege which burdened and smothered the trade of other nations.

For a time during the nineteenth century, the remarkable prosperity and progress of the two liberal nations, Great Britain and the United States, were an inspiration to liberals throughout the world. Until 1914, the trend of thought among economists and scholars was still in the direction of liberty.

However, the fallacious arguments of the restrictionists were never entirely silenced and the disorganization following World War I gave them a new opportunity. The bogeymen of the restrictionists—"overproduction," "cut-throat competition," "technological unemployment" and "competition of pauper labor" were brought forth from musty mental cupboards and used to frighten the people of every nation, including the United States and Great Britain, into a new era of restrictionism and governmental interference.

To citizens of other nations, the United States tariff acts of 1922 and 1930 appeared to be the result of sheer stupidity and greed on the part of special interests. And so they were. But to Americans, during the 1920's, foreign policies of trade union restriction of output, wage rigidities protected by "social security" doles, and price maintenance by cartels and commodity pools were equally stupid. These policies, not foreign tariffs, "forced" Great Britain off the gold standard in 1931. And the policy of imperial preferences and protective tariffs adopted by the British Commonwealth of Nations in the 1930's merely aggravated the difficulties for everyone, especially for the United Kingdom.

In reality, the argument that other nations cannot re-establish private enterprise without the support of the United States is a poor alibi for continuing restrictionist

and interventionist policies to which these nations are already committed for an indefinite period after the war.

Parliamentary debates in Great Britain, for example, show that British authorities and dominant sections of the citizenry have no intention of ever reestablishing economic liberty for the individual citizen. The 1944 White Paper on Employment Policy, accepted by Parliament with almost no opposition, commits the British Government to a "managed economy." The "social security" programs of the United Kingdom will rivet this "managed economy" on the nation through collectivistic redistribution of wealth and income, through freezing costs and prices, and through forcing the nation into a continuous policy of fiat money inflation. Widely advertised also is Britain's determination to continue on a "managed currency" basis, repudiating the gold standard which is the one, time-tested basis for monetary and financial stability.

In all of these matters the Dominions seem ready to follow the lead of the United Kingdom. This means that these nations have no intention of reestablishing private enterprise (as distinct from private ownership), no matter what the United States does.

In fact, even before the present war, trade unionism, collectivistic tax policies, "social security," government subsidies, government lending operations and fiat money were already rapidly destroying private enterprise both in the British Commonwealth of Nations and in the United States. Only the artificial stimulus of inflation was keeping alive even a semblance of private enterprise in these countries.

History shows what the final result of restrictionism and inflation must be—economic collapse and political revolution, all the more severe in proportion as they have been long postponed.

Further extension of government controls—tariffs, cartels, subsidies, or government loans—will only hasten the final breakdown. Gifts and easy credit from the United States, which is richer and less far advanced in collectivism, may for a time postpone the collapse in other nations. But this postponement will be purchased only by a more complete and widespread breakdown in the end.

Tariff reductions, breakdown of cartels and reestablishment of the gold standard are desirable policies for the United States, regardless of what other nations do. Many of us are trying our darndest to convince our fellow Americans of this fact. But free enterprise and sound financial policy are also desirable for the British Commonwealth and for other nations, regardless of what the United States does.

When a sufficient number of influential people in any nation hold this belief, or faith, in free enterprise, then that nation will break away from the present world-wide drift towards statism regardless of what other nations do in the matter of economic policy. But as long as the people of any nation are willing to postpone their own freedom until some other nation establishes sufficiently favorable conditions, they will not deserve liberty. Neither will they have it.

V. Orval Watts

A Taunt to Private Enterprise

One would not think to look in the annual report of the Federal Deposit Insurance Corporation for an attack upon the pervasive doctrine that the Federal Government must help to finance private enterprise through postwar reconversion and after, even to the point of either providing business with venture capital or assuming part of the risk. Yet there it is, somewhat buried, under the head of "Risk Bearing and the Financing of Private Enterprise," beginning on page 12 of the annual report for the year ended December 31, 1943, which did not appear until this year. The passage follows:

AS more consideration is given to problems of postwar reconversion, doubts concerning the ability of banks and other private financial institutions to finance business enterprise find expression in an increasing number of proposals for direct government financing or for guarantees by the government or by governmental agencies of financing by private institutions. . . .

Assumption by the government of the risks inherent in credit extension by privately owned financial institutions to private business enterprise would reduce the chances of continuation of banking and business under private ownership and control.

In order to avoid excessive loss the guarantor—an agency of the Federal Government—would have to set standards and review each individual loan

transaction. In effect, the guarantor would determine who could and who could not have credit as well as the channels through which such credit would be obtained. More and more it [the government] would assume the functions of management. The standards and forces of the market place would play a less and less important role, paving the way for progressive substitution of governmental action as the final determinant in the granting of credit—the life blood of business.

Ample justification can be found for the use of government guarantees in connection with war loans—the so-called V and V-T loans. These loans finance war contracts and contract terminations and involve risks and costs that are peculiar to war which is strictly a government function.

Justification does not exist for similar governmental intervention in the financing of private peacetime business. Adequate private resources now exist for the financing of business enterprise. Never before have the savings and cash resources of our people and our businesses been so large. Every opportunity should be given private enterprise to operate within the framework of a private financial system before the Federal Government, either directly or through its many agencies, steps in to render financial aid to, and provide financial direction and control over, business enterprise.

Cecil B. deMille's One-man Revolt

CECIL B. DEMILLE, the famous movie producer, was a member of the American Federation of Radio Artists, not because he was a wage earner, but because he happened to be conducting a radio program and was obliged for that reason to belong to the union. Moreover, he believed in unionism and supported it willingly. In the last election organized labor in California raised a large fund to fight a proposed law against the closed shop which was submitted to the voters as an amendment to the state constitution. Each union member was assessed one dollar. Mr. deMille refused to pay his dollar, whereupon his union threatened to expel him, which would mean that he could not continue his radio program. He applied to the court for an injunction to restrain the union, and lost. The union did expel him and he retired from the air.

On Going to Court

Following is Mr. deMille's first statement:

"I am advised that the Board of Directors of the American Federation of Radio Artists today suspended me, the suspension to become effective December 11, 1944, for my failure to pay one dollar which the board levied for the purpose of opposing Proposition 12 on the recent ballot in California.

"AFRA informed me by letter on August 16, 1944, that I, as a member of the union, in good standing, had been assessed one dollar for a fund to oppose Proposition 12 on the California ballot of November 7, 1944, and that if I did not pay this dollar by September 1, 1944, I would be suspended.

"I did not then know what Proposition 12 was, but the fact that it was an issue to be decided in three months by the voters of the State of California at the polls prompted me to refuse to pay this special assessment demanded by AFRA.

"The question is basic and simple and it has nothing to do with unionism or the merits of Proposition 12.

"It is: Can any organization, as such, usurp the rights of an American voter and arbitrarily make up his mind for him that he must support or oppose any proposition on the ballot?

"I believe that under the Constitution of the United States no organization should have that right.

"I might afford to lose one dollar, but I cannot afford to lose my rights as an American citizen, or my respect for myself as such.

"Therefore, I could not pay the one dollar assessment to AFRA although I am a union man and a supporter of and believer in unions.

"Upon receipt of the letter from the union, advising me that regardless of my opinion or feelings I had been assessed one dollar to be used for the purpose of opposing the proposition on the ballot to give American citizens the right to work, whether or not they belong to a union, I refused to pay the one dollar because I felt my rights as an American citizen permitted me to make

up my own opinion as to whether I cared to support or oppose such a measure.

"I immediately informed AFRA of my position. I told them I did not desire to embarrass their situation in any way by resorting to the courts for protection before a national election, as I felt it would be unfair as a member of the union to put them in the position of having legally to defend an action that I believed to be illegal. It was then agreed that the matter should rest, and I would not be suspended.

"However, the election being over, I was again informed that if I did not pay the one dollar assessment I could not work. Now, I was being told, not what propositions I must support in an election, but that I would be deprived of the right to earn a living because I had not supported an organization's political beliefs with which I did not agree.

"This is wrong and it seems to me that if any group of men can deprive an individual of the right to work, the right to earn a living and perhaps condemn him to starvation because he does not agree with them politically, then that situation should be corrected by legislation or we should acknowledge that we are no longer free men in a democracy.

"If any organization can assess one dollar, it can assess \$100 or \$1,000 for any political or other purpose permitted by its constitution or by-laws. It could assess democrats for the support of the Republican party or democrats and republicans for the support of the Communist party or communists for the support of the Republican party.

"We already pay a federal, state, county and city tax for the machinery of government. But now it is contended that there is nothing to prevent organizations, formed for the protection of the wage earner, from assessing for any uses it sees fit to designate, one per cent or twenty per cent or eighty per cent of the wage earner's income.

"Surely, this is not the free America we are preserving on the battlefields of the world today.

"A short time ago I received a bill for \$25 for dues and for \$1 (the political assessment) from AFRA. I sent them my check for the \$25 dues, which was returned to me with a notice from the federation's president stating that within thirty days of November 1, 1944, the Board of Directors would determine 'any penalties, censures, suspensions or expulsions.'

"Surely a situation is unsound that denies an individual the right to work unless he contributes financially to the support of political views to which he may be opposed.

"It is for the legislatures or Congress or the courts to determine if such assessments as this are legal. If it is determined that certain organizations do have such power—power which usurps the rights granted each citizen under the Constitution—then such citizens will have no recourse but either to submit to such rulings or elect to face living in America without the right to work.

"Such grave issues are involved that I consider it a duty to forgo, if compelled to, the sum of money which

I have been receiving weekly for broadcasting rather than pay one single dollar in a political tribute which acknowledges that I am no longer a free man.

“Cecil B. deMille”

On Coming Back

After he had lost his case in court Mr. deMille made a second statement as follows:

“The Superior Court of Los Angeles County has denied my application for an injunction, and has held that the levying by a union of the assessment of \$1.00 on its members to be spent in opposition to Proposition No. 12 was not the expenditure of money for a political purpose. The court evidently agreed with me that an assessment for a political purpose is unlawful, but does not agree with me that the assessment for Proposition 12 is political.

“Now what is a political proposition? To me anything on a ballot which is in any way controversial is political. If levying the assessment for money to oppose Proposition 12 was not for a political purpose because AFRA asserted that Proposition 12 was inimical to the interest of the union, then by the same logic, AFRA could levy an assessment to oppose a candidate for governor and candidates for the legislature, which candidates announce themselves in favor of Proposition 12 on the theory that their election would be inimical to the interest of AFRA. . . .

“To say the assessment levied by AFRA was not political because AFRA was defending itself from attack is to say that a party is not political because it is defending itself from attack by an opposing party.

“The Court also held, in effect, that a union’s assessment for money to be used to oppose a specific proposition on the ballot does not interfere with a member’s right of free suffrage, even though that member is supporting that specific proposition and even though he will be prevented from earning his living if he does not pay that union assessment.

“A high court held: ‘It is not enough to say that a man’s vote has not been influenced. It is also necessary for his freedom that he shall not have been coerced into supporting, by money or otherwise, the proposition which he wishes to oppose.’

“While I respect the learning and high integrity of our Superior Court, these matters seem to me to possess the ingredients of freedom or tyranny, and I feel that they should be submitted to our highest courts before we accept the principle of tyranny as part of our American citizenship.

“I shall consequently ask that the matter be considered by our Supreme Court.

“Meanwhile, AFRA, under the court’s protection, has declared me suspended and notified my radio sponsors that under their contract with AFRA, I cannot longer conduct my program over the air unless I pay the \$1 assessment.

“It is still my conception that the principles of American citizenship are more important than the large salary involved. Thomas Jefferson said: ‘To compel a man to furnish contributions of money for propagation of opinions which he disbelieves and abhors is sinful and tyrannical.’

“If my efforts result in the legislatures of the several states passing legislation for the protection of American citizens to correct the situation, then I will feel more than repaid.

“Meanwhile, if the right of free speech over the air is denied me, I shall be compelled to say *au revoir* and ask the kind thoughts of my many millions of listeners into whose homes I have been received every Monday night for so many years.”

On Reflection

At a St. Patrick’s Day luncheon in Omaha Mr. deMille said:

“Thomas Jefferson said: ‘*Resistance to tyrants is obedience to God.*’ The great majority of union membership and officers are fine, right-thinking American men and women. And yet we find a nation indignant and outraged against many unions—an army opposed to and threatening them. Many courts and legislatures in terror of them. Why?

“Because certain leaders have forsaken the high purpose for which the union was created, and have gone into politics to control and bend the nation to their will.

“As the war moves on, country after country sees the specter of oppression—and government by small cliques looms larger and darker over the world. The United States is no exception to this trend.

“It is a pity that the Monroe Doctrine does not apply to foreign ideology as well as to foreign guns.

“I am not speaking here for or against a closed shop. But a closed shop constitutes a monopoly of labor—and where any monopoly exists, it should be controlled and regulated for the welfare of the community. It should be governed by the same kind of laws and restrictions that apply to a water company which controls all the water, or an electric company which controls all the light and power.

“Such companies cannot refuse service to a man because he will not contribute a dollar to their political campaign fund.

“Where there is an uncontrolled monopoly of anything, including labor—as in my case—there is tyranny. Power corrupts, but absolute power corrupts absolutely.

“The American people do not favor, and I believe they will not endure, tyranny. But there has been built up in this country an unelected government which is superseding in power and authority the elected government. And a dissenting voice raised against this unelected but all-encompassing power is condemned to obliteration, branded with the standard name of labor hater, labor baiter, fascist, and other venomous terms; whereas, in reality, he is only pleading for constitutional government for all—the same law for the rich and the poor, the educated and the uneducated, the majority and the minority, union and non-union—he is speaking out against the injustice of one imposing its will upon the other.

“There must be 80 or 90 million citizens of the United States who still believe in constitutional government and freedom of the individual.

“These 80 or 90 millions must forget that they are Democrats or Republicans, or Protestants or Catholics, union or nonunion—and unite to save their individual liberty and our rights as free Americans—unite to prevent our government, our Congress, our legislatures, and our

courts from being high-pressured into submission by any minority groups of individuals operating for private purpose and gain; groups that have taken to themselves the divine right to control human destiny—even the right of life and death by control of the right to work.

“Have we, as a nation, become so afraid to assert ourselves that we will sell our children into slavery?”

“If we throw away now the gifts of Washington, Jefferson and Lincoln—if we undo now the work of the countless thousands who have given their lives for liberty—we shall be guilty of a crime against God and man that it will take centuries to expiate.

“This country is the hope of mankind, and it was built upon the rock of individual liberty.

“My voice is the voice of one crying in the wilderness—make straight your paths for freedom—God’s greatest gift to man.

“It will be a hollow victory to you mothers whose sons are fighting abroad if they must return to serfdom here at home. They did not pay for the right to fight. Must they pay for the right to work?”

“You can stop this abuse of power—and you can stop government from sanctioning such abuse of power—if

you organize for just one thing—the right of the worker to be politically free.

“And hang onto constitutional government as you would to a life raft in a boiling sea.

“The Constitution of the United States and the governing power of Congress are being replaced by administrative bodies with the power of making regulations which have the force of law.

“Remember that all through history, every free democracy has lasted but a few centuries and then passed into a dictatorship.

“Don’t be regimented. Don’t be forced into obeying the political orders of your boss—union or industrial.

“William Penn said: ‘Obedience without liberty is slavery.’”

“Many of you are still free men and women. It is for you to rescue those of us who have felt the hand of tyranny upon us, before you, yourselves, are regimented and the right to work is taken from you, as it has been from me.

“Edmund Burke, a good Irishman, said: ‘When bad men combine, the good must unite—else they will fall one by one, an unpitied sacrifice in an unequal struggle.’”

AS a nation of free men we must live through all time or die by suicide. . . . It is to deny what the history of the world tells us is true to suppose that men of ambition and talents will not continue to spring up among us, and when they do they will as naturally seek the gratification of their ruling passion as others have done before them. . . . Is it unreasonable then to expect that some man, possessed of the loftiest genius coupled with ambition sufficient to push it to its utmost stretch, will at some time spring up among us? And when such a one does it will require the people to be united with each other, attached to the government and laws, and generally intelligent, to successfully frustrate his designs.—*From a speech by Abraham Lincoln to the Young Men’s Lyceum at Springfield, 1837.*

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Published during 1944:

The Management Almanac, 1944

The Economic Almanac for 1944-45

The World's Biggest Business—American Public Spending, 1914-1944

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