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American Affairs

The Economic Record

GARET GARRETT, *Editor*

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VOL. VII, No. 3

Review and Comment

By the Editor

The Great Global Debate

THE exhibit of ideas in this issue suggests that the pivotal puzzle around which the prevailing pandemonium of doctrine and policy for the postwar world revolves is simply this: Is it possible to have national or international planning, under whatever trade name—for peace, full employment, prosperity, security, stability, or any consummation so devoutly and widely wished—without ultimately eliminating every form of individual and national freedom?

Beneath the four hundred pages of esoteric exegesis and amendment to the decalogue of Dumbarton Oaks framed by the six thousand scribes at San Francisco; beneath the clamor of the British elections; beneath the rumbling mobilization of the P.A.C.'s labor battalions and the "liberal" brigades on the Potomac for the Murray full-employment bill; and in most other places on the smoky planet, this appears to be the proposition which is being put to the pros and cons of faith and fear, of fact and fantasy, of logic and longing once again.

As one listens and reads, the debate seems as old, and as decisive, as the eternal dialogue of wind and sea, or the ancient conversations of the Sphinx and the sands of Sahara. Though it would seem easier in the modern world than in the time of Aristotle to demonstrate with almost mathematical finality that human freedom is irreconcilable with unlimited government, some men still deny it, many don't know, and most don't care. One sees only the stupendous paradox that after waging and winning the most destructive war in history in the name of freedom, its defenders are everywhere in a smaller minority than before, and the masses of men among the victors seem moved to chain themselves, and their governments, to the chariot of the conquered foe's intellectual ideas and moral postulates about the supremacy of the State.

Most of the United Nations have not merely long since embraced and multiplied Bismarck's social security system, which he foretold would forge "golden chains for labor." They have or soon

will have adopted the Nazi principle of compensatory fiscal policy for full employment, Mr. Schacht's formula for foreign exchange and trade control, Mussolini's compulsory organization of management and labor for industrial peace, and his program of public works for prosperity. Nay more, on the most intimate plane of manners and customs even the Russian peasant's millinery is now the American woman's fashion, and the greatest meat-making nation ships its cattle abroad and lives on a Japanese coolie diet. Thus is illustrated anew the ancient Hindu proverb that who eats the tiger shall be eaten by him.

Full Employment in Faith and Fact

IN DOMESTIC affairs the Great Debate proceeds in the same fogged confusion and conflict of faith, fact and fancy. Consider Representative Frank Hook's plea for the full-employment bill, which we print as the best statement of its supporters we have seen. It rests on the hopeful aspiration that since we have had full employment in war we can have it in peace without penalty or price, if we merely posit as public policy the legal right to a job for everybody, and implement the policy with enough public spending to supplement private spending when necessary. With the piety of the apostles he sees it simply as a process of public-spirited and brotherly cooperation between government, business and labor, by which the bread of budgetary deficits is cast upon the waters of free enterprise to return with good dividends and high wages after not too many days. He does not see, and probably would deny or reject, the rest of the syllogism of government power which proceeds from the premise and the promise of full employment in peacetime. Dr. Jordan has spelled it out in plain terms in the italic passage from his speech on p. 130 and now, by a curious recantation Marriner Eccles, long eminent among the minor prophets of the new economic apocalypse, points to its consequences in his letter to Senator Wagner about the bill, saying: "The inevitable result of forcing a peacetime economy to the levels of employment and production attained under the pressures of war would be uncontrollable inflation and subsequent collapse."

Magic and the Market

DEEPER still than the issue of employment policy in this global debate between individualism and statism lies the enigma of the marketplace, and the problem of what happens to human freedoms, under any numbering of them, when government imposes upon the free play of competitive forces its own purposes, whether of power or of humanitarianism. Hayek told us long ago in the article we reprint, which was the basis of his "Road to Serfdom"; and Ludwig Mises explains again in his speech; but neither quite touches that elusive axis of mystical imagination or supernatural faith around which the new religion or magic of unlimited governmental power revolves. Many of its devotees believe not only that the State can "intervene" in the market, for labor, commodities or money, internally or internationally, and yet leave everything else about the economic organization and social order the same as it was before; they believe also that systematic and comprehensive intervention in the market process is necessary or inevitable in the modern world precisely in order to make competition work properly, for purposes of social welfare, stability, peace or security.

Prof. Alvin Hansen's address at the 29th Annual Meeting of the National Industrial Conference Board gave a clear exposition of the need and also the method of this new economic necromancy by which the market may be made simultaneously free to enterprise and managed by government. It is to be done, of course, partly by the familiar paper money prestidigitation called "compensatory fiscal policy"—public spending and compulsory consumption—but mainly by using a new semantic tool which the Professor displayed casually and in passing on this occasion. It is called "the modernized market economy," and it will bear watching as it comes into circulation. These are words with a career before them, no less in labor and business circles than in academic and official circles addicted to the indoor sport of trying to eat one's cake and keep it.

Paradoxes of Total Peace

THE panorama of that hypergeometric space of modern polity, where opposites are identical, and the fourth-dimensional minds of our time move in ecstatic unconsciousness of inconsistency, now unfolds itself most fully on the lofty plane of international planning for peace. It may not matter so much that to the ordinary eye, in the three-dimensional perspective of history, the global fish-fry at San Francisco was actually a conference of victors and their satellite states to divide the spoils of conquest—another Congress of Vienna magnified to planetary scale. The great debate of freedom and force has here been carried to a higher level than

the mundane concerns of the individual common man, into the stratosphere where national sovereignty and super-statism are the issues. From it we have now emerged with a new formula for the liberty and security of governments themselves in a totalitarian world, and we know when, why and how absolute states vote and fight to keep peace.

It is not merely, as Emery Reves has put it in his recent book, that the Big Powers are henceforth free to behave like gangsters, and the small nations like prostitutes. It is rather that in a totalitarian world, established by a victorious struggle for human freedoms, only absolute states have rights to freedom and security or can preserve peace. The dogma of unlimited government has thereby been embodied in a new decalogue, documented with international economic compacts and implemented with permanent military power beyond the reach of individual citizens anywhere, which make national independence or internal freedom practically impossible for any peace-loving people who does not defy it. Under this new international Magna Carta of freedom, continuous war and perpetual peace become identical and indistinguishable instruments of domestic policy for total government. And any nation as strong as America that remains or tries to remain in any measure free and independent and at peace must become a permanent menace to the total peace of a totalitarian world, subject to punishment by total war.

Freedom from Freedom

THE explanation of these paradoxes that mark the Great Debate may be that we need more experience to divide the false from the true, and have not had enough of it ourselves, or have forgotten what our ancestors had. But in saying the proposition being debated is planning *versus* freedom we may be chasing the wrong rabbit. Perhaps there is a simpler explanation, more painful to contemplate, which is that most men may have ceased to prefer freedom at all, or may fear it, or even hate it; and the same may be true of peace as we imagined it. Freud told us that the instinct for death is at least as strong as the will to live, and today men's desperate demand for masters, their insatiable appetite for security and submission, their boundless desire for dependence and irresponsibility may indeed be stronger than once was their hunger for adventure and danger, or even for food. So who can say when the Supreme Council of the United Nations may not issue a ukase characterizing the practice of freedom or competition as an esoteric perversion or aristocratic vice (perhaps applying the word "bourgeois" or "fascist" to it), which must be suppressed by all peace-loving peoples somewhat as the quondam League of Nations used to try to prevent the white-slave traffic?—V. J.

Winds of Opinion

Full employment is a principle that can be accepted by all of us. By the majority who oppose socialism and communism. By the small minority who favor socialism. By those Americans who desire government to assume a larger role in the life of the nation. And by those Americans who would prefer to see government play a minor role in the life of the nation. Whatever our differences—and they are many in a democracy—we can all unite in common responsibility to achieve a 60,000,000-job America.—*Paul V. McNutt, Chairman of the War Manpower Commission.*

Sooner or later Americans will be forced to move out of the universe of promises and guarantees and address themselves to the conditions required for full, or expanding, or good employment after the war. Public officials and private authorities on economic policies are doing this country a great and probably lasting disservice by professing to know precisely how full employment, economic expansion and rising standards of living can be achieved in the future. By assuming this air of omniscience, they are arousing false hopes in the minds of millions of people and they are diverting attention from many basic problems, upon whose wise solution the future economic welfare of this country depends.—*Leo Wolman.*

. . . the conservatives are making fools of themselves by tying full employment to unrestricted private enterprise. They can't possibly maintain full employment, and they are setting a trap for themselves in that, when millions of unemployed reappear, they will have quite needlessly discredited private enterprise in the eyes of the plain people.—*Dr. Gunnar Myrdal, Chairman, Peacetime Planning Commission of Stockholm.*

In framing a government which is to be administered by men over men, the great difficulty lies in this: You must first enable the government to control the governed, and, in the next place, oblige it to control itself.—*Alexander Hamilton (1788).*

While we are talking about whether or not government can guarantee social and economic rights, it is fair to ask a question. Have we been taking our social and economic problems to government and asking government to solve them? Have we been shifting our personal and business responsibilities from our own shoulders onto the shoulders of government? If we have been asking for government help, for special government consideration, why do

we not expect other people to do so? If we are going to reconvert government had we not better begin at home and assume the full social and economic responsibilities which are our personal obligations? Otherwise there is no chance to prevent government from directing every activity.—*J. Frank Rushton, Jr., President of the Birmingham Chamber of Commerce.*

We must demonstrate here in the United States that we can not only excel other great nations in the art of political democracy but also that we are making rapid progress in the science of reconciling the political freedoms with the need for full use of all manpower, all resources, and all technologies on behalf of the general welfare. We cannot lose an iota of the traditional freedoms as we learn the science of full use.—*Henry A. Wallace.*

Realistically speaking, the trend of the Bretton Woods Monetary Plan would be away from currency stability, free exchange and internationalism, and toward currency debasement, exchange controls, paper-money standards and monetary nationalism. In other words, it would be in the direction exactly opposite to the primary purpose of the Fund as contemplated by its leading American exponents.—*E. W. Kemmerer.*

We have the necessary machinery and the necessary skills and personnel for the required postwar production. The great void is in the field of ideas. It is more than a void. There is so much error; there is so much mental perversion; there is such insanity in the field of monetary and fiscal policies that the existence of productive equipment and productive skills counts for little because they are barred from operation by these perverted ideas.—*William C. Mullendore.*

The experience of the revolution has proved that the Soviet power is a much higher form of democracy than any other form of power known to history. . . . He who attempts to solve the problems of the transition from capitalism to socialism by relying on the phrases of freedom, equality and democracy in general discloses his nature as a petty bourgeois and Philistine.—*From an editorial in the Russian organ Pravda.*

The real enemies of our system, the tank traps on our road to progress, are the misbegotten ideas, these crops of compassionate ignorance and rebellious mis-

understanding, which we have sown by our own carelessness, fertilized with occasional snobbishness, and all too often harvested through our own immobility. Time takes care of wrong-headed people. They die. But their ideas live on in their children.

What are some of them? A preoccupation with personal security; a growing tendency to think in terms of special groups; a lowering of moral standards and a growing disrespect for law and order; an astonishingly unreal approach to the economic facts of life. If we could knock off those four fortresses of distrust—which we in business had our share in building—tomorrow would look a lot brighter.—*Charles E. Wilson.*

I believe that economic forces are moving toward freedom of business opportunity and a truly competitive economy in the postwar world. Industrial invention and a new age of transportation have created industrial opportunities for all sections of this country which never existed before. Full production after the war and the elasticity of our economy depend on the release of new and independent initiative in industry. This, I think, must be the direction of a successful liberal movement in America. I believe that sort of liberalism in business can be effectively advanced from within the business world.—*Thurman Arnold.*

But when we begin to speak of different kinds of democracy we are doing our best to add to the existing confusion on this subject.

There are "kinds" of democracy which violate every established idea about democracy as practised in its original homes. There is democracy without real elections. There is a kind of popular rule without the will of the people. There is a kind of liberty without free men. There is a kind of free enterprise without free enterprisers. People are not content to say more or less democracy, more or less liberty, more or less individualism.—*Topics of the Times in The New York Times.*

Somebody asked: "How far are you going with this rural electrification?" I said: "We will not quit until we have gone with the power line just as far as the tax gatherer goes; we are going to go to every home that can be reached by the draft. We are going to electrify every farm home in America.—*Representative Rankin, speaking for the TVA idea.*

There has come to be a cult of force throughout the world. In place of the political and legal theory on which our government was founded and under which America has grown to be a land to which people have been eager to come from every part of the world in order to live the lives of free

men and enjoy life, liberty and property in security, new theories are being advanced. Instead of our fundamental doctrine that government is to be carried on according to law we are told that what the government does is law. Instead of a law which thinks of citizens and officials as equally subject to law, we are told of a public law which subordinates the citizen to the official and enables the latter to put the claims of one citizen over those of another, not according to some general rule of law but according to his personal ideas for the time being.—*Roscoe Pound.*

During the recess I was waited upon by a delegation interested in the Kilgore bill. I asked the chairman of the delegation if he, as a good American, meant to sit there and contend to me that the man who had saved six or eight thousand dollars and had it either in war bonds or in the bank, as the result of the wages he had earned in the war effort during the past four years, was justified in going to the Federal Treasury the first or second week he was laid off for unemployment compensation of \$30 or \$35 a week. His answer—and I think it is very indicative of the attitude of many people today—was, "Well, you are not going to penalize the man who has been prudent enough to save money during the war, are you?" My answer and the answer that this Congress must give to the American people is that we are not penalizing any citizen when we require him to support his own family when he has the means with which to support that family.—*Representative William J. Miller of Connecticut.*

Totalitarianism in the modern world necessarily brings total war, and total war now means destruction of civilization unless it can be stopped. The only thing that can stop it is the recovery by man of his conscience, his consciousness of right and wrong, and of the moral law that lays down the rules of right and wrong, the "Natural Law." There is no other hope for peace.

The fatal difference between our day and the past is not in the fact that we have broken the law. Men have always broken the law. The difference is that we have forgotten the law, not merely forgotten it, but even denied its existence, which is infinitely worse than merely breaking it.—*Thomas F. Woodlock.*

Business in general—you meet it everywhere you go—has been taking customers for granted, and the time is nearly here when customers cannot be taken for granted. That is going to come as a jolt to a lot of people and the harder the jolt, the better for the country.—*Willard H. Dow.*

“Full Employment” and Freedom in America*

By Virgil Jordan

I AM NOT among those who believe that “the end of this war will bring the unfolding of a new era based upon a vastly expanding economy and unlimited opportunities for every American,” merely by uniting to ignore or evade the economic facts that face us, by agreeing upon verbal flower arrangements that divert attention from them, or by cooperating to compromise with error and evil in public or private policies for political expediency or “peace in our time,” either at home or abroad.

The plain truth is that whatever the phrases and formulas out of which the laurel wreaths of victory may be woven, among conquerors and conquered alike the idea of unlimited government has won this war everywhere in the world, not only on land and sea, but in the minds of men; and the individual citizen who was the unknown soldier who fought it is also the universal victim. In every country, victorious or vanquished, his ideas and aspirations are today occupied territory in which by his courage, fortitude and credulity he has helped to plant firmly and perhaps permanently the emblem of the absolute State. After a bare two centuries of revolt, in which men in most countries succeeded in building some kind of defenses against its force, behind which they could carry on their life and work in tolerable freedom and independence, the ancient dogma of supreme government has everywhere returned to the throne, armed with the scepter of new instruments of power which the monarchs of yesteryear could not even imagine, and arrayed in regal robes woven of glittering phrases like full employment, national income, consumer purchasing power, social security and international organization, which disguise age-old ambitions of personal and imperial power.

MOST governments and their millions of dependents, camp followers and courtiers, are now concerned mainly with the task of maintaining, consolidating and expanding the power over the life and work of the community which they won as a result of this war. They talk of dismantling war industries and demobilizing armies; but nobody mentions or could even imagine the demobilization of government. Instead of beating their swords into plowshares they are forging them into political action committees and pressure groups or other weapons to preserve the unlimited power and special privileges they won through the war. In the past, war was only a partial and occasional activity

of the community, and so the State at worst touched only part of men’s lives in wartime; but today through this war, omnipotent government has dug itself in so deeply and spread itself so pervasively through the whole pattern of their ideas, aspirations and conduct that its withdrawal or liquidation is unthinkable for most of them. It is not merely that every civilian economy has become a permanent instrument of military policy henceforth. Total war has brought with it total government everywhere, and most of men’s thought about peace and their planning for the postwar world is now shaped in terms of unlimited expansion of the wartime pattern of omnipotent government, in which vast structures of State machinery, domestic and international, are piled one upon another on a planetary scale, burying the great mass of individual citizens beneath an immense pyramid of bureaucratic authority within which all independent effort and responsibility become impossible and the very capacity for them must be crippled and ultimately disappear.

IN MOST men’s minds all over the world peace looms up as a peril menacing the omnipotence and providence of the governments by, for and off which their peoples live. As the war draws to its close, in every act of government—its persistent pressure for peacetime military conscription legislation; its postwar lend-lease, rehabilitation, world-policing and slave-labor proposals; its reconversion rationing and price control measures; its “job-budget” bills; its Bretton Woods and other international economic agreements—one may see plainly the political purpose or hope of keeping the American community and the world in a kind of permanent war economy in the name of peace and full employment, as the most plausible and appealing means of maintaining the power of supreme government at home and abroad.

War has become too important to the world’s politicians to permit them to take peace very seriously. It has solved too many insoluble problems for too many of them.

THE COURSE of events abroad and the conference of San Francisco bring us closer day by day to a decision far more difficult than took us into this war. As it subsides, we are coming to the time when we will have to decide whether we are willing and able to fight for the liberation of America from unlimited government at home, or want to make unconditional surrender to the system of ideas about the State which we presumably set out to destroy

*From an Address to the Chicago Association of Commerce, April 18, 1945.

in Europe and Asia in this war, and which have invaded and conquered us here while we were doing it abroad. Merely to make an armistice with unlimited government will not save us from the choice, for we cannot drop anchor in the swift stream of Statism on which we are riding, and we shall finally have to get ashore to the firm ground of freedom or go over the falls of dictatorship and serfdom.

This is a decision which is perhaps of less concern to business management than to labor and the rest of the American community because, for more than a decade now, business has been occupied territory, operated largely with captive labor or management hostages; but everybody in this country who still wants any sort of freedom for its own sake has a stake in it. Today the question of liberty in America is no longer merely an economic issue, a matter of the market place. It goes far beyond and much deeper than the problems of business or labor organization. It reaches into every part of the life of the individual and touches everything that makes it worth anything to himself or anyone else.

Nor is it merely a domestic decision, a matter of individual liberty and independence, for it will determine where we stand in the One World of totalitarian states in which this war will end, and it may finally decide our independence and freedom as a nation, and perhaps whether or not or how soon we must be prepared to fight again for it. In that sense there is no doubt that the fundamental issues of domestic and foreign policy are inseparable, or indeed identical. They come down to the decision whether or not this country is to remain within the international system of compulsory collectivism, and be kept permanently in the iron circle of socialist states which this war has created throughout the world. Every event in the field of foreign affairs from Hot Springs and Bretton Woods to Yalta and San Francisco makes it evident that this is the underlying aim of all international policy toward America, and so far our government has shown little sign of successful resistance to it.

INSTEAD, under the urgent necessities of global war, we have been bargaining away bit by bit our birthright of freedom here at home, in the deluded hope of buying "peace in our time" cheaply abroad, in much the same fashion as the desperate travelers pictured in the old chromo of the sleigh-ride on the Steppes threw their children to the pursuing wolves. In view of the immense productive and military power which this country contributed to victory in the war, this pathetic performance in making the peace must surely have made the ghost of Mr. Chamberlain walk wonderingly among the ruins of Munich and Berlin.

We know now that whatever the diplomatic outcome of the war in the West, the essential economic

and political ideas of National Socialism have conquered Europe even more completely than the Nazi armies did. It is not merely that the Soviet legions have overrun the Balkans and the Baltic countries and turned out the lights of a continent from Kiel to Korea, but that in most of the rest of Europe, in Italy, France and even England, no Red armies were needed to destroy economic freedom and civil liberty. It had been done long before by the politicians, the business men, and the labor unions of these countries. Our armies abroad have been fighting for ideas—for a philosophy of life and a conception of government—which in fact were dead nearly everywhere in the Old World long before the war began.

What is more important is that all of the ideas for the postwar world which are accepted today in Europe, especially in England and Russia, assume it as an imperative condition for their success that this country be brought within the same system permanently after the war, and every device for shaping American thought and feeling to this end is being used today, as it has been during the past decade. The European and Asiatic statesmen who, having destroyed the Nazi military power with our aid, are planning and building their postwar world on the ideological foundations of National Socialism, under a facade of new names, know better or sooner than the Nazis did that that world cannot live for long half under Socialist serfdom and half under economic freedom. This recognition is no less urgent in the long run for Uncle Joe's totalitarian autarchy than it is for a nation under parliamentary government like England, who must live by trade or starve, and who knows that her postwar planned economy, however complete, cannot compete in any free markets of the world with the productive power of a free America.

SO, THE character of American political institutions and her economic system after this war have become as much a crucial concern of the rest of the world as those of Germany were at its beginning, or as those of Russia were after the last war, but this time in reverse fashion. In a postwar world of socialist states, the idea of economic freedom will remain a subversive revolutionary force internationally as well as internally, just as Bolshevism was after the last war. This fact will furnish the key to most of the postwar problems of international relations as well as those of domestic policy for another decade or two. Whether America can be kept within this global structure of National Socialism that has been erected around her political institutions and economic organization during this decade, or whether she is to resume life within the traditional framework of economic freedom and competitive effort where she left off—this is the central issue for the postwar world. It underlies not only the larger problems of international reconstruction,

but also all the practical domestic problems of re-conversion for us.

I know that few of us in America are yet aware of these things, and hardly anybody has been quite willing to believe that the question could come to that, partly because we are used to thinking that freedom is free, and can't imagine having to buy and pay for it again, but mostly because in the current debates about it the real issue is disguised in shifty economic terms like full employment, social security, planned economy, international cooperation, until no one knows what anyone is talking about in these matters any more. In this country we have been living for a decade or more in a new Tower of Babel deliberately designed for us by our bureaucracies, under a carefully planned confusion of tongues, in which the meaning of all words and ideas is made relative to the political purposes of the moment, and the end of every sentence cancels out the beginning, until even the most absolute tyranny may commit murder and pillage, condone or encourage slave labor, and maintain concentration camps, in the name of freedom, democracy, free enterprise, or international peace. There is no chance that we in America may make any wise or courageous or honest decisions upon the fundamental issue that faces us in our domestic situation or our foreign relations—if we want to—unless somebody begins soon to nail down in candid and definite terms some of the ideas and words we are dealing with in discussion of these matters today. There are many of them, and their meaning shifts from day to day amid the shadow dances of the official word-changers, so all I shall try to do here is to spell out the plain implications of one of these ideas—that of unlimited government guarantee of income or purchasing power, which has been marketed under the changing labels of national planning, the planned economy, social security, full employment, guaranteed annual wages and international stabilization, and has finally become the keystone of the international structure of compulsory collectivism, embodied simultaneously in the full-employment bill in America and the Beveridge plan for Britain.

THE very title—"Full Employment in a Free Society"—under which Sir William Beveridge has put forward the British program of national socialism in his latest book, from which the Murray-Kilgore bill has been copied, lets the cat out of the bag. Step by step as he presents the attractions of the idea of full employment as the aim of domestic and international policy for the masses he is compelled to expose all the price tags, political accessories and governmental gadgets called for in the fine print of the contract, and it is clear that the same attachments come for the American as for the English model of the millennium. It does not matter whether or not the British people like them or

have been accustomed to them by riding around the back roads to serfdom in the early models of the Welfare State imported from Germany since the time of Bismarck. For us the plain fact is that the political accessories of full employment cannot be attached to the American chassis without a complete alteration of its fundamental design.

Ours was designed deliberately to limit the power of government, by dividing it and neutralizing it through constitutional checks and balances for the primary purpose of safeguarding the civil liberties and protecting the political freedom of the individual citizen against the encroachment of the State. Now, as the American mind has been reclaimed by the spirit of Europe, we are being told day by day that these ends of government are no longer necessary or enough. It is being taken for granted that the original purposes of this design have already been replaced or supplemented by other ends, which everybody desires and which cannot be attained within the framework and means of limited representative government under law. In our foreign policy we are committed to concerted action to maintain peace and promote prosperity in the rest of the world by continuous and unlimited use of military force and economic power, while in our domestic policy we are committed to unlimited guarantee of employment and income. Both these objectives require a government of unlimited powers, unrestrained executive authority, and unrestricted economic resources, with parliaments and legislatures performing merely advisory or conversational functions, and abdicating to executive agencies their power of the purse.

WELL, there is some gain by way of candor in having come to the point where some of us recognize that if our government is to play the new role of planetary policeman and global Santa Claus abroad and provide full employment at home, we shall have to scrap the Constitution and give up trying to shape it slyly to these purposes. I do not know whether or not many Americans have more than the sentimental attachment to it which they have for early colonial antiques. It may be that the American people today, like those of Europe and Asia, are willing to pay any price for these things that go under the name of security, and one no longer can be sure about that after the steady process of demoralization to which they have been exposed during the past decade; but they should not go into this collectivist bargain imagining that security is free, any more than freedom is free.

Nor should any of us who do not share that new delusion make the mistake of assuming that we need not worry about the outcome because in the end everyone will find that the formula of full employment by unlimited government guarantee is phoney and must fail. Even some as shrewd as

Winston Churchill seem to be making this innocent error now, ignoring or underestimating the new instruments and mechanism of power which total government and its technicians have been devising and perfecting to implement that purpose during the past decade, in America and England, no less than in Germany, Italy and Russia.

No, the trouble with the program of full employment by government guarantee is not that it won't work, but that if you pay the price it will work so well that when you have paid the price and got it all you have left to wish for is that it wouldn't work at all. Once you have set in motion the massive machinery of unlimited government to make good its guarantee of full employment and adequate income for everyone, it is too late to protest that you didn't read the fine print in the social contract. It is too late to say that you didn't really mean full employment or even sixty million jobs; that you didn't quite intend that everybody who can work must be employed when, where and at whatever the government deems necessary or desirable, producing what the government wants, at a wage or profit the government considers fair, or that everybody must buy and consume what the government decides is desirable at a price which it determines, or spend or save his income in ways which the State decides is proper. It is then too late to realize or argue that the standard of living is not proportional to the amount of employment or payrolls or income or pensions or wages and prices, but to the production of the things people want to buy, consume or keep, with the least labor necessary to get them. It is useless to explain that you meant merely that the people who can't get satisfactory jobs at fair wages should be employed or supported at a minimum standard of living. You have paid your money and made your choice, and all the clauses of the contract must be carried out if any of them are to be met. What are they?

NOTICE first that the agreement rests on two premises which practically everyone now accepts almost as axioms of modern economics. One is that everybody has a political right to an income sufficient to buy an adequate standard of living, either by being employed by somebody in a satisfactory job at fair wages, or running a successful business at a fair profit for himself, or being paid an unemployment or health benefit or pension by the government. The other axiom is that this right can be guaranteed only if enough money is spent by private citizens and government together to provide the income required to meet the desired standard of living. The current stipulation is that we must spend about \$160 billion of public and private money to provide about sixty million jobs or businesses, public and private, yielding enough income to satisfy the contract. But this stipulation is naturally sub-

ject to change from time to time, and so there are the further stipulations that if private spending is not enough the government must supply the rest, and if private spending is too much, government must offset it by collecting more money from citizens by borrowing or taxes.

As a social scheme this seems "perfectly neat and quite complete and not in the least extreme." It means merely that government assumes complete responsibility for the accounting of the community's money, controlling its expenditures, income and saving, relieving the citizen of all his budgetary problems, and leaving everything else about his life and work as it was. If that were all there is to it, it might be made simpler by arranging to have all private income paid into the Treasury into a sort of super-social-security account for every individual and then having Mr. Morgenthau send each citizen a check every month for whatever balance the public officials figure it would be proper for him to spend. That would at least assure full employment in Washington; but a benevolent government would then only come to the beginning of its problem, and would soon have to invoke the unread, unwritten or invisible clauses of its contract.

FIRST, of course, there are the fiscal clauses, since the whole full employment program centers in the power of the purse, now enlarged to the control not only of the public but of the private pocket-book. If the State is to determine total spending, it must obviously begin by determining not only the total national income, but its distribution, and end by determining individual income after taxes and savings. Citizens might save more or less than is necessary, so they cannot be permitted to earn or spend as much as they please without upsetting the political appletart. The State must have complete control of the net disposable private income, and a prior lien on it. The withholding tax, borrowed from Europe, and sold here with the Greek gift of "forgiveness" as a premium, is a device perfectly adapted to this purpose. It not only converts the income tax into an excise, and collects it under anaesthesia in advance of spending, but makes it completely flexible so that it can be applied specifically to the spending of groups and individuals as the political exigencies may demand, without any regard to constitutional considerations of equity or equality. When it is further improved, as its energetic merchandiser Beardsley Ruml proposes, by abolishing the corporation income tax or converting it into a nominal dog-license, the individual citizen becomes merely a tax-bearing animal, thoroughly domesticated to growing continuous crops of fiscal fleece for the State to shear. Certainly there is no other way to control the total private spending necessary to provide full employment. Under this section of the contract, when the State borrows from

citizens and spends on a large scale to provide full employment in war or peace, it can even make the large bond buyers pay the principal and interest on the debt held by the small income brackets, by graduating interest rates and income taxes accordingly.

Next in the contract is the consumption clause. After you have determined through your fiscal machinery what the net disposable private income of the community is to be and who is to have it, you cannot let people spend it as they please if you are to guarantee full employment. They might save it or hoard it, though you can probably prevent that; or they might waste it in many undesirable ways, as on liquor or on women who should be otherwise employed. In any case you can't be sure that they will spend it so as to purchase the services of everybody to whom you have promised a satisfactory job, at the wages and kind of work he wants, where he happens to prefer to live. A free competitive market for consumers or producers is an insuperable hazard to a full employment policy, because consumers do not spend intelligently according to any national plan, workers don't change their occupations, skills or locations easily or freely, and investors and enterprisers have their own peculiar notions as to what they want to do with their money, according to what consumers want to do with theirs.

SO to fulfil the full-employment contract you have to stipulate that control of consumption may be necessary in the national interest, by establishing a system of priorities in the production or purchase of consumer goods, as well as rationing and price controls, and some kind of allocation of new investment or control of the development of new competitive products. Since the jobs to be filled are not always likely, especially after this war, to be in the same places as the people who want to work at them, or buy the products, the government must also be able to move industries, labor or markets about (here or abroad) if it is to balance spending with employment. So the disposal of surplus war plants, and their voting populations, as well as government control of foreign trade will probably prove to be important footnotes to the full employment contract.

Beyond all this, there is a much more crucial stipulation in the consumption clauses of the contract. Even with complete government management of private income, the control of private spending and consumption is so hard at best, and individual citizens are so stubbornly bent on saving or wasting their money in their own way, that it will be impossible for government to make good on its promise of full employment unless it spends more of their money for them, and makes them buy or consume what is good for them whether they want it or not. Besides, the capacity for private consumption is

inevitably limited by time or boredom, but the possibilities of public consumption are boundless. They include not only the traditional pyramids, post offices, parks, playgrounds, public works and domestic or foreign T.V.A.'s, but also medicinal, dental, manicure and chiropodist services, day nurseries, communal feeding, food-stamp plans, "homes of rest and culture," "travel for strength through joy," better meals for Melanesians, more vitamins for Hottentots, rebuilding the ruined antiquities of Florence, planting trees in Italy, and whatever (including continuous war for peace) an ingenious and ambitious government can imagine might make employment if it spent your money for you on something you wouldn't buy yourself.

So we come in the full-employment contract to the compulsory-consumption clause, which is perhaps the key provision in the whole program, for by it unlimited government can outflank and by-pass the perpetual peril of the competitive market-place and the hazards of the consumer's choice; and for the same reason it has a great appeal to business. It is always much easier to do your marketing through a government which can make the ultimate consumer take the product whether he wants it or not. War is essentially and almost completely a compulsory-consumption economy, where the unwilling customer merely happens to be your foreign enemy. The full-employment contract simply applies the same principle and the same method to peace and to the domestic consumer. Those who made it said as much in plain terms many times when they asked the world *ad nauseam* the trick question: "If you can have full employment in war, why not in peace?" The answer is that you certainly can, if you are willing to have the government spend your money to buy goods and services you don't choose and can't use. But when it does that it is merely putting a lot of your spending money into other people's pockets, and it must take the money back again in taxes, or it must make sure that enough of the kinds of things that citizens *choose* to buy is available, else even your own spending money won't buy much groceries, gadgets or government before you are through.

THUS WE ARRIVE, by easy and familiar stages, at the final clauses of the full-employment contract, the labor and management and investment clauses, which cover the problem of getting the work done that may be needed to produce the groceries, gadgets or social gains for which the private and public income is to be spent. These provisions are mostly in fine print or invisible ink, legible to the naked eye only when the heat is turned on, because the kind of contract we are talking about is for full employment or full payrolls, and the political preamble makes no mention of production or work. It assumes that they are mostly superfluous syno-

nysms or natural accompaniments of employment and payrolls. In fact, the sequence of events by which the spontaneous generation of prosperity is supposed to take place is that public plus private spending makes payrolls, which make employment, which terminates automatically, after a lapse of time and overtime, in the production of useful goods.

Most retail merchants as well as government officials seem to believe that prosperity is brought by the spending stork; but industrial management, like the midwife, has a more realistic view of the process. It knows—and this war drove the lesson home—that when government starts issuing to anybody unlimited claims to consume the product of other people's labor, and undertakes to redeem them, it has to provide the product, too. To do that government has not only got to provide workers to produce the product, and manage and direct their work, but also supply their tools; and that means that it must make them produce at least something more than they are permitted to consume with the money it gives them.

The difficulty of getting enough real work done and getting enough tools to work with in order to make good the claims to consume which it issues, is the ultimate dilemma that drives the welfare-investment State either to inflation and repudiation or to the labor camp, or both. If we doubt the historical evidence on that, it would be easy enough to test the spending-expansion idea of prosperity and the idea of state capitalism by having the Treasury send every individual a monthly check for \$100, which works out roughly at the desired national income of \$160 billion. It would be interesting not only to see how many million jobs and how many man hours we got for it, but also to hear the arguments that Marriner Eccles, Professor Hansen and Henry Wallace would make against it. Yet if anything they have been saying about the magic of consumer purchasing power in creating employment and production is true, there is no reason why it wouldn't work, except the simple fact that most people wouldn't, so long as they could buy anything with the money they get.

SOONER or later a community that makes unlimited consumption a political principle for unlimited government must end by consuming itself—its human capital along with its material resources. Any full employment or guaranteed-income program that begins with government as consumer or dispenser of spending money or purchasing power to the masses must move from the now familiar phases of forced consumption, forced saving and compulsory management to the final stage of forced labor, which is common to every country with total government in Europe and Asia, and came close to us here in America during the war. At the hands of the State,

security and serfdom are ultimately and inevitably identical as economic facts, and the political forms in which they are dressed up are unimportant.

I said that forced labor was the final clause of the full-employment contract, and it is perhaps enough; but it is not quite the last paragraph. Even in the labor camps of Russia or Germany men might think and talk, and thoughts and words may affect their own and others' works for the State which employs and supports them. So merely as a matter of good management and equipment, government has to see that they are provided with the proper ideas and the right words. Freedom of speech and thought are the final sacrifices to the Supreme State which are stipulated in the full employment program.

SO I can sum up for you the written and unwritten conditions of the new social security contract in these terms: The government will give you full employment and guarantee your income provided you will let it use your money as it pleases; if you will buy for your own use what it tells you, at the price it fixes, or let it do the buying for you; if you will save as much money as it says and let it invest it as it pleases; if you will work at whatever it says, when and where it says, and as much as it says for what it says you can be paid; and if you will hear, read and think what it tells you and keep your mouth shut. Beneath the elaborate and complex apparatus of fiscal and monetary policy, social insurance, price and wage fixing, rationing, conscription, and propaganda by which it is operated in the modern State, the compulsory collective economy—which this contract calls for to replace the voluntary competitive economy—is a simple and primitive bargain. *It means merely that if most men in any community expect or compel a master—man or government—to promise to employ, support or protect them as a matter of legal or political right, they must obey that master, do what work he makes them, live and move where he tells them, eat, wear and buy what he tells them, save what he tells them, and ultimately believe and say what he tells them.* Even if they do all of that, in the end their master can guarantee support and security to them only if some of them are able and willing to produce by their work somewhat more than the master permits them to consume for themselves. And since those who are able to produce more than they consume won't keep on working forever to support the rest, the standard of living must ultimately descend to the subsistence level unless the community can beg, borrow or steal enough wealth and labor from some outside source to keep up the show. This is what has been happening in Europe and Russia in the past five years, and it will happen in America and England if they follow the road laid down in the full-employment bill and the Beveridge program.

The American Menace

By Garet Garrett

. . . so far as FORCE is concerned, the world is at the mercy of Russia, Britain and the United States regardless of whether we form this league or not.—Senator Vandenberg.

SURVIVING at the end of the war there will be two—only two—great machine nations. An immense balance of industrial power will lie in Anglo-American hands. This magnificent fact, seeming at first so fortunate and well-boding, is nevertheless full of trouble.

In the present world industrial power is military power. They are one and the same sign. What we are saying therefore is that when the war ends, with Germany and Japan crushed, the paramount military power will be an Anglo-American possession. If this were one power, or if it acted as one, it could wither war in the twig, merely by lifting its hand. For where now would the aggressor stand that he might not be cut off? Where would be one who, out of his own resources, could implement an evil design of the first magnitude? Certainly a world war could not happen, at least not for a very long time, not until there was such a thing as another industrial power or a coalition of other industrial powers equal to this.

Against all of that what a little thing is a hyphen! And yet this paramount industrial and military power is so divided—by a hyphen. It is Anglo-American. Being divided it is competitive; being competitive it is bound to exist in a state of unresolved conflict. That reality is implicit in the situation and cannot be helped. But it is not a simple reality. It involves problems of extreme difficulty, some of them politically dangerous.

Great Britain's Plight

There is, to begin with, the fact that the division of this Anglo-American power is very unequal. Immeasurably the greater part of it lies in American hands. As she regards the American power, apart from her own, Great Britain is filled with feelings of dismay and dread. Why? Not merely because the American power is so much greater than her own nor yet because it obliges her to accept second place in the world where for so long she had been first, but because she believes—and it may well be true—that if the Americans should elect to put forth their power to the utmost, competitively, the restoration of Great Britain would be impossible within the frame of an Anglo-American world. That is to say, for purposes of survival she would be obliged to

create a defensive world of her own, perhaps in collaboration with that great non-machine power that has everything else, namely Russia, as the *London Economist* has already suggested.

"I say," said Sir George Schuster, "that there is no more fateful question in the world than this: how will the United States use her surplus capacity after the war?"

What Will the Americans Do With It?

Sir George Schuster represents economic statesmanship in Great Britain. His own interests and activities have an extraordinary range, including industry, banking, transportation and trade; and he speaks also as one who has served his government in a distinguished manner and now as a member of Parliament. He was addressing the American Chamber of Commerce in London on "The Tasks and Problems of the United States and the United Kingdom After the War." First he stated what seems so clearly to the British to be the crucial difference between their problem and the American problem, saying:

"Our essential problem is how to produce what is needed to meet the vast needs and commitments that lie before us. Yours is how to find fruitful purposes which will fully utilize your vast resources. We must export to live. You want exports to give your people employment at home."

Then leading up to the question that is foremost in every British mind—*how will the United States use her surplus capacity after the war*—he went on to say:

"You are producing now 700,000 tons annually of synthetic rubber. Your capacity is 1,000,000 tons. Your prewar consumption was only 600,000 tons. You have now got an annual productive capacity of aluminum of three-quarters of a million tons (personally, I believe it is more than that), and we have to add to that the half-million or so which Canada can produce; but even at three-quarters of a million tons that is more than the total world consumption of aluminum before the war.

"I say these are frightening signs of potential disturbances in the world's complex balance of trade exchanges. But to measure your own position more precisely I am going to select from many possible yardsticks some figures given in a very interesting article

which appeared last year in the *Survey of Current Business*, which is published by your United States Department of Commerce. That provided a most interesting and careful survey of the trends of growth in manpower and of productivity per man hour in the United States, and it arrived at this conclusion—that in order to produce the same quantity of goods and services which you produced in 1940, a year which was away above the production of your top boom year of 1929, looking ahead to 1946 to what your manpower will be then and what your productive efficiency will be then, you will be able to produce that result and still have 19½ millions unemployed.

“Well, now, if your production in 1940 was enough to keep all your people clothed, happy and contented, and in 1946 you are going to be able to do that with 19½ millions unemployed, what does that mean? . . .

“The fact that she [the United States] will have a surplus capacity of staggering size is one which no one can possibly question, and I ask: Will she pour that out on the world in manufactured goods, looking mainly for her need for giving employment to her people at home, or will she concentrate primarily on building up her standards at home and regulate her exports so as in the first place to create as little disturbance as possible to the economies of other countries who have to export abroad, and in the second place to produce the maximum possible permanent advantage to the countries that are receiving her goods?

“I have not the slightest doubt in my own mind that in the long-run interest of the United States that question ought to be answered in the latter sense, but one has got to recognize that it will involve most difficult adjustments. You have your industries geared up to produce an enormous quantity of goods, and, of course, you will want to export, and I ask myself what political party is going to tell your electrical industry or your new shipbuilding industry to cut down and send their men off to build houses for their own people so as to give British manufacturers a better chance?”

Neither country, Sir George said, was looking at the problem as a whole; worse than that, there were “all sorts of disturbing signs of difference and misunderstanding between the two countries.”

If We Would Only Look

What he proposed therefore was that the United States send a delegation of important industrialists and economists to make an intensive and intimate survey of the British economy, to measure in their own way its necessities, and then to consider, for the sake of the world, how Great Britain's imperative needs may “be fitted into the United State's position.” Such a delegation would be permitted to see for itself the spectacle of a bankrupt British treasury, the almost empty box from which \$10 billions of overseas investments vanished during the war, the \$12 billion pile of British I.O.U.'s payable on demand to other countries and nothing to pay them with, a decimated merchant marine which was borrowed by the government for the war and largely lost, and a foreign trade withered to less than

one half of its prewar volume, whereas during this time American exports, exclusive of lend-lease, had been increasing.

The industrialists on this American delegation, looking at British industry, would see for themselves that in its technology, its know-how and its equipment it is inferior to American industry, and for that reason cannot compete on even terms until it has been made over at a cost of perhaps \$6 billions in addition to everything else. And having seen all of this for itself, and having verified the fact that Great Britain, technically speaking, is broke, then perhaps such an American delegation could make the American people understand what the British mean when they say that in order to survive they must enormously increase their export trade. Not only must they be able at once to bring it back to what it was; they must increase it at least one half over what it ever was before, in order—

In the first place, to be able to compose matters on a long term basis with their creditors;

Secondly, to repair the physical ravages of war and rehouse themselves;

Thirdly, to streamline their industry in the American pattern; and,

Fourthly, meet at the same time the cost of the government's undertaking to provide for the people of England complete social security, full employment, and a higher standard of living. This has been promised.

That British Feeling

The same delegation could, if it would, make the American people realize how the British feel when, as they face this heroic task, they look across the Atlantic and see that for each piece of anything they may be able to make for export American industry is prepared to make two or three.

What will Great Britain have to sell in foreign trade? Nothing out of her own natural resources. The only thing of that kind she had was coal and her coal industry is very sick. Not textiles either, because she can be beaten too easily in textiles and besides there is no profit in them. She will want to make and sell machine tools, engines, motor vehicles, planes, ships and electrical equipment. But in American industry there is a surplus capacity—and this is a capacity much more efficient than Great Britain's—equal to the task of producing all the machine tools, engines, motor vehicles, planes, ships and electrical equipment that the world can possibly buy or use, and to do this at costs generally lower than British costs. Moreover, American industry very largely is prepared to make these things out of her own resources whereas Great Britain in the first place must import all of her raw materials.

And if this proposed American delegation's understanding contained also an element of romantic sym-

pathy it might undertake to impart to the American people how it feels to be British at all in these altered circumstances, though it were only to quote the words of the Rt. Hon. Oliver Lyttelton, the British Minister of Production and now head of the Board of Trade, who said to the House of Commons:

"We have, perhaps, the most important psychological task in front of us in all these matters, which is, to realize that we are now the world's greatest debtors. We have always been creditors, and the creditor mentality is deeply ingrained in our outlook. We have to change that to meet our changing circumstances. We have to realize that we cannot afford to buy abroad anything we can economically make ourselves. We simply cannot afford it, and there are occasions when our rather *grand seigneur* manner will have to be altered in order to match our rather shabby and somewhat shiny coat."

Delineating the Colossus

Mr. Lyttelton uttered this admonition in the course of his contribution to a debate in the House of Commons on the subject of, "Export Trade and Industrial Change-over." An important ingredient of that debate was bitterness. What emerged was the figure of an aggressive, wilful and selfish industrial colossus on the other side of the Atlantic, such as no American would recognize.

Mr. Edwards, speaking not only as a member of Parliament but as one who knew what American competition was like, said:

"If they are going to treble their exports after the war, and to maintain that increase, what is to happen to this country? I want to put it as a matter of fair dealing. . . . They say that their method is to contribute most by creating a high level of international trade. But is it to be one way traffic? . . . They make it perfectly clear that postwar trade is part and parcel of their postwar strategy. These markets that they win here they intend to maintain. . . . Our exports to South America have been practically wiped out. To Latin American countries the United States have increased their cash exports. In Italy, where before the war they used to supply twice as much as we did, their advantage is now four to one. They are creating a taste for American goods and establishing machinery for which spare parts can be supplied only by America. Once you get a country's machinery, if it is good, nothing on earth can drive you from it. If you have a Rolls Royce you want Rolls Royce spare parts, and if you have a Ford you want Ford spare parts. These countries will want their spare parts and new equipment from America. . . . We have to lay the main trouble for the present position at America's door. . . . Let us ask them, if they are going to have 300% increase in their exports after the war in order to provide jobs for their people, whether they intend that there shall be unemployment in Europe."

Mr. Benson said:

"The United States has an efficient producing machine. Not only that, but in industry in the United States they have retained a very large amount of profit

made out of war. They had no excess profits tax until they came into the war, and they made enormous profits. Even now they are making profits which they are retaining in industry, and, what is more, they are ploughing back those profits into plant."

Mr. Shinwell said:

"Something has been said in the course of the debate, and quite properly, about the possibility, indeed the probability, of a trade conflict with the United States of America. I want to say at once that if ever that trade conflict emerges in an acute form it will be fatal to international cooperation. Everybody recognizes the difficulty of promoting adequate international cooperation in the economic field. It is much more difficult to promote cooperation of an international character in the economic field than it is in the sphere of war."

Captain Thorneycroft said:

"In 1938 America was producing more efficiently than we were and their productive efficiency was increasing at a greater rate than ours—nearly double. We were behind in the race, and were falling still further behind. They were producing more per worker and more per man hour and at lower costs. They were even able to pay higher wages. That is a situation which cannot be tolerated. Many people think that the war has changed all that, but it has not. It is true that our industrial war effort has been magnificent, that we have done a fine job, but it is not true that America has done a less fine job. . . . America can provide more consumption goods and more exports because she produces more efficiently."

Sir W. Wakefield said:

"We found in South Africa that a great sales push by the Americans was going on. They were offering an immediate supply of all kinds of goods, half cash down, the balance of payment to be made in two, three or four years' time, as and when possible, without interest. . . . We found that American salesmen were taking advantage of the difficulties which this country has, because it is engaged to its utmost capacity in war production, to offer the attractive terms which I have described."

Sir Oliver Simmonds said:

"I would like to read briefly to the House what *The Economist* says about the Chicago air talks and what we should learn from them. Here are the words used on 2nd December:

'This would seem to be another instance in which the fine moral principles proclaimed in Washington turn out to have very special definitions, tailored to fit self-interest. The United States, in its bid for mastery of the air comparable to Britain's mastery of the sea in the past, is running counter to the hopes of all for a fair chance to operate international lines.'

"I say no more on that subject except that if we are going to be realistic we will start by assuming a rugged self-interest in these matters on the part of the United States of America. . . .

"I have been vastly interested in the course of the last few weeks, in a daily paragraph in the *Daily Mail*, headed 'Stranglehold on Britain.' If Hon. Members have not noticed that, I would recommend them to

world, and that the British Government was indifferent to this fact and doing very little about it.

No Need for Anybody Else

A few weeks later there was a debate in the House of Commons on the Export Guarantees Bill, which was a measure providing that the government insure British exporters against loss in certain circumstances—and there again the American colossus appeared. The most interesting contribution to that debate was by Mr. Silverman, who said:

“Let us look at the situation in the United States. It is necessary to be quite frank about these matters and about issues that arise out of the United States of America and its policies. I do not think the Americans mind it, I think they like it, and prefer to be told in perfectly plain and straightforward terms what people think about things, rather than that they should be delicately handled and wrapped up in cotton wool. They prefer to be hit straight on the chin and to have a chance of hitting back. Reference has been made to speeches delivered in America. There are 11,000,000 men and women in the American Services—curiously enough almost the exact figure reached by unemployment in America during the days of the great depression. The first duty of Uncle Sam when the war is over and those people are demobilized will be to find each of them a job. Not merely the President of the United States, but Mr. Wallace, Mr. Stettinius and a good many other persons have committed themselves, and quite rightly, as we and our Government would commit ourselves in those circumstances, to the pledge that every able-bodied American will be given a job at adequate wages. Mr. Wallace addressed the CIO Convention in Chicago and he put the policy in these terms: ‘A job for every elector and for every elector a job—60,000,000 jobs.’

“Let us face this fact of 60,000,000 intelligent and extremely well-educated American citizens linked up to a technologically perfect machine, using material resources that are practically limitless. My Hon. friend the member for South Ayrshire (Mr. Sloan) said he could not conceive how to increase production without making people work harder. Of course one can. America has done it and will go on doing it. If there are 60,000,000 Americans, with advancing technological perfection of that kind and limitless resources, producing consumer and capital goods, there is no limit to what they can produce. They can supply without difficulty all the needs of the world. There is no need for anybody else to do anything at all.”

The Tender Spot

But for all her long preeminence in world finance, world trade and machine craft, Great Britain's fiercest pride had always been in ships. Now in the House of Lords, Lord Winster rises to ask His Majesty's Government whether any plans for post-war reconstruction of the shipping and shipbuilding industries are being formulated. A long debate ensues. Lord Winster says:

“The Red Ensign has been replaced by the Stars and

Stripes as the predominant flag at sea. The United States mercantile marine has grown from something like 7,000,000 gross tons to 22,000,000 gross tons. It now represents two thirds of the world's tonnage. The end of the war may very likely find this country with 10,000,000 gross tons of shipping and the United States with 30,000,000 gross tons.”

Viscount Buckmaster says:

“But assuming that international trade recovers it is still open to doubt whether we shall receive our full share. We are faced at once with the problem of American tonnage. I do not propose to raise any raucous voice on this side of the Atlantic to match those voices resounding on the other side. . . . The problem is an awkward one. I am not sure that the effect and full extent of American building are yet realized. I am told that since the passing of their Merchant Marine Act in 1936 the Americans have built more than half the total tonnage that existed in the world before the war. One ground for hope is not only, if he will allow me to say so, the fact that the noble Lord, Lord Leathers, and others with him have been to the United States and have this matter well in hand, but that we did in 1941 agree with the United States that we should primarily build combat vessels while they should build merchant ships. I think it would not be unreasonable to suggest in such a case that we should be allowed some of the surplus tonnage on reasonable terms.”

Lord Westwood says:

“The phenomenal increase in the output of merchant shipping in the United States looks like creating a situation with which we as a maritime nation will find it difficult to deal at the end of the war. . . . Shipbuilding in the United States, as we all know, has been accelerated to an amazing extent. Can we be told how Britain and the United States, the two greatest maritime powers in production, with their control over millions of tons of shipping, will stand in relation to each other when the war is over? The British mercantile marine, owing to tonnage lost, will, when the war ends probably be half the size it was in 1939, whereas the United States merchant fleet will be at least four times its prewar size. . . . There was a time within living memory when eight out of ten ships under all flags were of British construction.”

Hurt by Lend-lease

In the British mind at all levels there has been from the beginning a sense of grievance against lend-lease. This is not easy for Americans to understand. The British admit, of course, that lend-lease saved them from defeat. Nevertheless, it hurt their pride to have to accept it at all and hurt them much more to have to take it on very strict American terms, which terms were to the general effect that they should bind themselves not to export things similar to the things received under lend-lease or things made of like materials. Thus a British manufacturer could not sell to a foreign customer a piece of electrical equipment containing copper, at least not without special dispensation from the government, because they were receiving

lend-lease copper from the United States; and they believed or suspected that in many cases American exporters at the same time were satisfying the urgent needs of Great Britain's former customers.

How else it could have been managed is difficult to imagine, for certainly if the British had used lend-lease materials to sustain their exports during the war, or had used lend-lease to release materials for export which otherwise they would have been obliged themselves to use for war, American criticism would have been such as to jeopardize the whole lend-lease system. This the British concede. They do not say the restrictions were unfair. They do say that the conditions might have been modified after the United States itself had entered the war, for then it was a common war and everything might have been pooled, even materials enough to maintain on both sides a skeleton export structure.

A good deal of this discussion may seem to be merely disagreeable, and so it is really; but to be entirely fair one must take it to be the oblique expression of a deep anxiety. The source of that anxiety is obvious enough. The amazing diffusion of American things during the war to every corner of the world, partly by lend-lease and partly by this country's own direct exertions, was bound to have the effect of a prodigious sampling operation. The American machine tool, the American motor vehicle, the American tractor, the American plane, the American package, the American gadget, even the American know-how and technology—these have been introduced to every potential postwar customer in the world, and not only introduced but wonderfully and skillfully demonstrated in use and action. Fifty years of competitive "selling" could not have done what this war has done in five for the legend—*Made in U. S. A.* The British very well know what this means in terms of future markets.

So What Can the Americans Do?

If only the American power were apparitional—if it would appear only when needed to trample the aggressor down, and then, having raised the aggressor's victims to their feet again, if it would retire upon itself instead of forcing the economic rivalries of peace to new extremes, Europe would be greatly obliged. She might even hope that the story of her destiny would take a miraculous turn for the better. And why shouldn't she believe in miracles, since the appearance of the American power in Europe has twice been miraculous in fact? Within a fantasy like that Great Britain's problems would quite simply solve themselves.

But taking the world to be what it is, and taking Great Britain's plight to be as she represents it, what can the Americans do about it more than they have done?

After renewal of the lend-lease agreement with Great Britain last November the Committee on the

Future of Lend-lease—a committee composed of the Secretary of State, the Secretary of the Treasury and the head of the Foreign Economic Administration, made the following announcement:

"The Committee understands that as in the past the United States and the United Kingdom will both endeavor to insure to the extent practicable that neither the United States nor the United Kingdom receive undue competitive advantage over each other as a result of the war situation."

That was a statement of American policy to which no objection has ever been heard. In that renewal of the lend-lease agreement with Great Britain the very difficult subject of "partial and equitable reconversion" was considered, and the following official statement was made in Washington (*New York Times*, December 1, 1944):

"Under this arrangement it was decided that on Germany's defeat reconversion in the United Kingdom and the United States should proceed on the same percentage basis; that is, if we reconvert 40% of our war industry Britain has the right to convert as much, so that there will be no undue competitive advantage for the exporters of either country."

In keeping with this agreement, automobile manufacture for civilian use was resumed, after the defeat of Germany, in both the United States and England at the same time and in roughly equal percentages, with only this interesting difference—that the British motor industry was permitted to make 200,000 automobiles for civilian use in the next twelve months on condition that one half of them, or 100,000, be sold in foreign markets, whereas in the last full year of motor car production in Great Britain 1938, only 41,000 motor cars were sold abroad.

It was an even start. That was according to the agreement. What cannot be altered, of course, nor shared, is the technological superiority of the American motor car industry, which is even greater now than it was before the war.

The Ground of Conflict

But if an even start is not enough the question returns. What more can the Americans do? What more can the British expect? The answer will appear when the problem has been restated in its three lowest terms, as follows:

I. There is an American intention, namely, to raise American exports to threefold what they were before the war.

II. There is a British intention, namely, to increase British exports to one half more than they were before and to do it immediately, even if they have to organize British industry under a kind of military discipline.

III. It is extremely unlikely that both of these intentions can be realized. The probability is that the greater will swamp the lesser.

It is clear that the British intention cannot be adjusted to the American intention. It is only the American intention that can be adjusted or modified to make room for the British, and that is what the British are asking the Americans to do. That is what Sir George Schuster means when he speaks of fitting Great Britain's imperative requirements into the "United States position."

The British would be incapable of saying it nakedly. They say it is for the good of the world they are asking it, or that the Americans themselves will profit by it in the end because, in the words of Lord Catto, "Britain is the world's best customer. If we cannot export we cannot import, and that is bad for us and bad for the rest of the world and especially bad for those who produce more than they consume,"—meaning particularly the United States. Definitely, however, what Great Britain asks is that the United States shall not put forth its power in the foreign trade of the world to the utmost, or at least not until the British can establish their position.

When the foreign trade of the world was simply the sum of the total activities of people exchanging goods with one another for profit, freely and in their own way, the idea of one nation asking another to withhold itself, to forego a competitive advantage, or in any way to limit its power, could not have been imagined. For one thing, there would have been no way to do it. To whom could such a plea have been addressed? It could not have been addressed by one government to another because foreign trade was not a function of government; it was purely and entirely a function of private enterprise.

That is no longer true, and the fact of its being no longer true is a sign of profound change in the economic philosophy of the world.

Government Sets the Goal

Regard the American intention. By whom is it announced? By American industry? By any association of American exporters? No. But by the government. The State Department notifies the world of it in these words:

"Some of our best economists estimate that we will probably have to sell \$10 billions' worth of goods a year abroad if we want to have relatively high employment and a national income in the neighborhood of \$150 billions. In other words, we have got to export three times as much as we exported just before the war if we want to keep our industry running at somewhere near capacity."

Regard then the British intention. By whom was that announced? Again, by the government. Brit-

ish industrialists and British exporters only discuss it. The goal is set by government.

So what you see is that foreign trade now *is* a function of government. More than that, foreign trade becomes as definitely an instrument of national policy as war. On this plane diplomacy acts and on this plane one government may ask another to mind what its people do, even how they buy and sell, with whom and how much.

Considered as an instrument of national policy the character and meaning of international trade begin to change and a new language appears. The substance of exports will still be goods, and yet the meaning of exports will be social or political, not economic.

Exporting Unemployment

When the American Government says exports must be raised to a certain volume in order to provide full employment—*i.e.*, 60,000,000 jobs—what is it thinking of? It is thinking first of unemployment and how to get rid of it. More exports will mean more jobs for American wage earners; a decline in exports will mean fewer jobs. Underlying a policy of expanding exports, therefore, is the idea of exporting unemployment. The British arrived first at this way of thinking about foreign trade. The *London Times* recently referred to the American intention as "a device for exporting unemployment." And yet the British intention comes to the very same thing. The British Government is resolved that Great Britain's exports shall be increased to 150% of their prewar volume—why? In order that there shall be full employment in England according to the Beveridge plan.

So, for all its new freedoms, including the freedom from want, there comes a new dread in the world, namely—dread of the competitive export of unemployment. How strange!

If both the United States and England did happily succeed in ridding themselves of unemployment by exporting it, who and where are the other people who in the act of importing it would be paying the American and British wages and what could they pay them with? Neither the American nor the British Government appears to have thought this through. The general idea between them is that if only they can achieve full employment then ultimately all people everywhere will come to enjoy full employment, too, from a limitless expansion of international trade. Is it not so written in all the charters?

Battle of Britain

Individualism Organizes Against Statism in England

By C. T. Revere

ON THE EVE of his departure from this country for home, Friedrich A. Hayek left this message of cheer: Not only would England stand firm for the cause of free men, but notwithstanding all timorous misgivings, totalitarianism had reached high tide and was on the wane in Europe. In spite of all the bait held out by the Beveridges, Laskis, Bevinses and Morrisons, those who have watched developments in "the tight little island" are convinced that the heart of England, like the oak of the ships that beat back the Spanish Armada, is sound to the core. Quietly, persistently, yet with increasing vigor, England is fighting the evil propaganda of Statism with her own inherent fire.

The Society of Individualists, founded by Sir Ernest J. P. Benn and a band of devoted and untrifled disciples of individual freedom, have spread their gospel throughout the length and breadth of the island, or as one picturesque phrase puts it, from John o' Groat's to Land's End. It is a militant, efficient organization, and it has set forth its enunciation of principles in a ringing declaration which has gone forth under the title of "Manifesto on British Liberty" (reproduced on p. 139).

But the Society of Individualists did not stop with the mere circulation of its Manifesto. Through the

National League for Freedom, founded in 1944, it has built up an organization of publicity that operates on a high plane of spirituality. Critical, yes; but powerful in its presentation of facts and logic, taking its case to the British voter with a factual backing in language he can understand. Planned Economy is mercilessly exposed, but there is no resort to personal smearing. Honesty and frankness are the outstanding characteristics of its appeal.

At a mass meeting held early in the year, Sir Ernest Benn illuminated the statement of the Society's principles. A few excerpts from his address will give an idea of the militant and uncompromising spirit that marks the character of the Individualists' appeal.

"First a word as to control. . . Liberty is a personal possession to be cherished, which brings out the best. Control is an external arrangement to be evaded, and brings out the worst. Liberty generates personal pride. Control develops the spirit of subservience. Liberty is a lasting quality on which credit, confidence, stability, character, a plan of life, can be founded.

"We are afflicted with a new class or breed of upstarts, a sort of priesthood, who consider themselves ordained to do our thinking for us and to tell us what they have decided is good for us. That may suit the Germans, but it will not suit us."

LET THERE be no mistake about it; it is no easy, cheap-jack Utopia of airy phrases that lies before us. This is no time for windy platitudes and glittering advertisements. The Conservative Party had far better go down telling the truth and acting in accordance with the verities of our position than gain a span of shabbily bought office by easy and fickle froth and chatter.

All my experience of the British people, which is a long one, convinces me that never at any moment more than this have they wished and meant to face realities, and woe betide those public men who seek to slide into power down the slippery slope of vain and profligate undertakings.

This is no time for humbug and blandishments but for grim, stark facts and figures, and for action to meet immediate needs.

If we are to recover from the measureless exertions of the war, it can only be by a large release from the necessary bonds and controls which war conditions have imposed upon us. No restriction upon well-established British liberties that is not proved indispensable to the prosecution of the war and the transition from war to peace can be tolerated.

Control for control's sake is senseless. Controls under the pretext of war or its aftermath which are in fact designed to favor the accomplishment of wayside totalitarian systems, however innocently designed, whatever guise they assume, whatever liveries they wear, whatever slogans they mouth, are a fraud which should be mercilessly exposed to the British public.

At the head of our mainmast we, like the United States, fly the flag of free enterprise. We are determined that the native genius and spirit of adventure, of risk taking in peace as in war, shall bear our fortunes forward, finding profitable work and profitable trade for our people, and also we are determined that good and thrifty housekeeping, both national and private, shall sustain our economy.

—Winston Churchill.

THE SOCIETY OF INDIVIDUALISTS

and

NATIONAL LEAGUE FOR FREEDOM

FOUNDED 1944

MANIFESTO ON BRITISH LIBERTY

THE Individualist Group, which issues this manifesto, consists of members of different political parties who are united in the desire to restore to British public life that spirit of individual liberty and responsibility which characterised its period of greatness and which is to-day gravely threatened.

What follows is not a rigid creed but a broad statement of beliefs, within which there may be many minor differences of view.

1. *State and Individual*

We reject the notion, common to all totalitarian systems, whether Communist, Fascist, or Nationalist-Socialist (Nazi), that the State is a supreme and monopolistic super-entity, the sole source of authority and morality. "Power corrupts, and absolute power corrupts absolutely"; the omnipotent State lacks the moral elements inherent in the individual; it not only devours its own creators, but becomes a force for evil both inside and outside its own boundaries. The unit of existence is the natural human being, and his or her natural extension is the family, not the artificial personality of the State. This is true whether the approach be religious, biological or political. In the words of J. S. Mill: "The worth of the State, in the long run, is the worth of the individuals composing it."

2. *Government*

State interference with the liberty of the subject should be reduced to a minimum. It is difficult, in complex modern societies, and in a world ravaged by war, to define that minimum with precision; but it is clear that of late years it has been vastly exceeded by the inordinate growth of executive powers at the expense of the legislature and the judicature.

(a) Our constitutional system needs a return to Parliamentary responsibility. There must be a lopping-off of the ever-spreading tentacles of bureaucracy, and a severe restraint on the processes by which Westminster has long been yielding its constitutional powers to Whitehall.

(b) The Rule of Law must be reasserted and jealously safeguarded. By the Rule of Law we understand the ancient constitutional principles that the administration of justice is the function of the Courts of Justice, and not of secret administrative tribunals; that there is only one system of justice applicable to all citizens; that all men, whether private individuals or officials, have the same standing before it; and that justice shall not be suffered to yield to any real or supposed requirements of governmental convenience or expediency.

(c) If bureaucracy is to be restrained, decentralisation of administrative powers must be encouraged.

(d) The successful operation of democracy depends upon the highest possible degree of responsibility and intelligence in the electorate, so that intellectually debauching influences, whether by written, spoken or broadcast word, may be seen in their true light and resisted accordingly. To this end the educational system should aim at true mental discipline, independence of judgment, and the awakening of interest, curiosity and enterprise.

Equality of opportunity, and the encouragement of promise and ambition, should be an important aim not only of education but of social policy generally; but this should not be allowed, in the minds of the young, to degenerate into a belief that they can rely for a secure existence, not upon their own efforts, but upon the State.

3. *Economic*

State organisation, as opposed to individual enterprise, suffers from grave inherent defects. Certain essential public services must be organised and guaranteed by the State, but it is not the true function of government to manage private life. Bureaucratic control is invariably accompanied by lack of flexibility and initiative, and by waste of time, effort, personnel and public money. It therefore inevitably fails of the very object for which it is supposed to exist—efficiency.

Trade, whether domestic or international, should be freed from unnecessary restrictions, and profit (regarded as a premium on economy and efficiency) should be regarded as a proper motive of commerce. Individual initiative, independence and achievement, within the limits of legitimate competition, should be regarded as virtues in the citizen. This applies specially at the present time to the small trader, for long our economic infantryman, but now threatened with extinction.

4. *National Morale*

The sense of individual responsibility, which former generations regarded as a characteristically British quality, has been systematically undermined by many influences. The swamping of self-help by State-help has resulted in regimentation of opinion and in a tendency on the part of the average citizen to regard measures of which he disapproves as inevitable, and thus not worth the trouble of opposing.

The flabbiness of the electorate has corresponded with a progressive decline in the prestige of the House of Commons, from which, owing to the tyranny of party "discipline," the spirit of independence has all but disappeared. The older spirit of vitality and of confidence in the achievements and capacities of our race has been succeeded by a pusillanimous mood which inculcates a drab uniformity of unadventurous living. It is the same spirit which represents the British Empire—the most remarkable political achievement in history—as the product of mere oppression and cupidity.

The assertion of individual-right has been regarded as hopelessly reactionary, and its advocacy by any public man as equivalent to a political suicide. That sentiment persists, and, despite the so-called political truce, innumerable efforts are being made to persuade our people that social salvation is to be found only in millennial plans which involve vast expansion of the functions of the State and corresponding limitations of the rights of the individual. This spirit, unless it is fought promptly and resolutely, can only result in the country's lapsing into one or other of the forms of totalitarian government.

The Future of Foreign Trade

As It Was Seen Thirty Years Ago

By James J. Hill

These passages from a long-forgotten speech by the great railroad builder of the Northwest are not merely a reminder of the almost mantic quality of the imagination and foresight of some of the personalities of American enterprise at the outset of this century. They may, besides, seem as pertinent to some problems of the postwar world as when they were spoken in May, 1914.—Ed.

PERHAPS the most instructive thing in the world would be to consider the means by which so many English markets have been captured by Germany, and why so many industries have changed their seat from Sheffield and Birmingham to the busy manufacturing towns of the German Empire. The main reason lies in the inability of the English manufacturer to change his working conditions in conformity to general changes that have taken place, beyond his power to arrest or alter, in the markets wherein he must give a free field and can hope for no favor.

It must be borne in mind always that the future and, even more and more surely, the present struggle for foreign commerce must be conducted under the rules laid down by civilization itself. There can no longer be a scarcity of any commodity in any place on the surface of the globe if a surplus of that commodity is to be found anywhere else on the surface of the globe. Through the growth of all forms of publicity, of commercial reports, of communication by cable and wireless, the situation is at once made known. Railroads and steamships are ready to carry the desired articles from any spot to any other spot, however distant. And, so long as the transaction shows a profit, capital and men will be ready to undertake it. No real monopoly of trade can ever exist again, except within the narrowest areas or for an inconsiderable space of time.

What England Forgot

It follows, necessarily, that all competitors must enter the lists under substantially equal conditions. England had controlled so large a share of the world's commerce in manufactures for so long that she apparently forgot this. She encouraged or permitted the establishment of conditions that left her hands tied as against a free competitor. And the reason for dwelling at some length here on this is that the United States is following her example. The power of the English trade unions became practically arbitrary in fixing wages, hours, and general working conditions. Germany found that, with a more advantageous wage scale, she could go into the world's markets and compete at prices which Eng-

land could not meet. Hence the enormous growth of German exports of the manufactured articles. Hence a competition which the United States itself cannot meet in many lines, and which it could not meet at all did not immense and accessible natural resources and, in certain lines of manufacture, the use of highly skilled labor and highly complicated machines which cheaper labor is not competent to handle, give us a temporary advantage.

But that advantage, like every other exceptional local condition in world trade, tends to be equalized and disappear. For, in the vast pool of the world's activity, where the material, the worker, the machine, the method fly from one end of the earth to the other at call, only a purblind nation can dream of basing its future on anything less commanding than equality or superiority in the elements of production: including, of course, the wages of labor and the remuneration of capital.

This, Great Britain has not yet fully realized. The United States does not appear to understand it at all. Widespread and long-continued industrial distress in England comes from attempting to hold markets against competitors while maintaining a wage scale that does not permit her to meet their prices, and does not offer to capital an inducement to go into new fields of development or even to remain where it has hitherto been occupied. She meets this not by removing the shackles from her industries, but by fastening other shackles on her capitalists; fetters that must be added later to those that already gall the limbs of labor. She has entered upon the most elaborate experiment ever seen to compensate the worker for the work he has lost through insisting upon impossible economic terms, now that work is no longer to be had, by a vast eleemosynary system which makes the State pay for his unemployment, his sickness, his misfortune and his death. He is to be sustained in his position of inability to compete with other workers; and he is to be protected against the penalty of his economic defiance at the expense of the whole community.

Living Off the Past

Reduced to its simplest terms, this project is not "humanitarian," but unspeakably cruel. That high-sounding word and its familiar fellow, "social justice," are common cloaks for legislative cowardice or incapacity that does not dare apply the real remedy to the obvious disease. It merely postpones the inevitable, and intensifies the catastrophe which can no more be averted than hunger can satisfy itself on air. Great Britain is now maintaining many of her industries in an artificial condition by appro-

priating for the support of one class of her people the property of another class. Let it be understood that this discussion has nothing to do with the morals of the process, but only with its economic consequences. The British Empire is now sustaining itself by sequestering, under one guise or another, the stored accumulations of past generations. The end of that policy comes when this accumulated capital is exhausted or has removed itself beyond the reach of legal capture. When the day arrives, Great Britain will be face to face with her real problem. Its magnitude and its difficulty will be almost unique in history.

It would seem that, with such events passing before our eyes, and the veil of the future almost lifted for our benefit, we should not be beyond the reach of helpful suggestion or find rational conduct difficult. But the burdens placed by unwise restrictive legislation and unnecessary taxation upon business in the United States are producing their natural effects here also. Industry slackens less because capital is dissatisfied with the present than because it is uncertain of the future. Just such mistakes as Great Britain has made and is making may confront the American workingman with a lost job, an empty cupboard and no younger and more promising land to which he can emigrate as his needy fellows have done for centuries when caught in the vise of economic errors or commercial revolutions. The future of our industry must be worked out here and by ourselves. Losing gradually the advantages that our position and resources have given us up to a recent date, nothing will save us but a deeper wisdom and a keener sense of justice toward all the factors that must unite to create national prosperity and keep us at the front in the race with other nations, or even insure us against disappointment, disorder and economic distress at home.

The Law of the Common Level

Markets, prices, wages, remuneration of capital—every element that enters into the production, distribution and exchange of commodities, everything that forms the material of commerce or makes commerce possible, every price-making factor—are undergoing a world-wide leveling process. Advantages, natural or acquired, are being banished from the world as certainly as contagious diseases. Trade hereafter will stand like a colossus, with one foot on either hemisphere; and on the banner that it holds will be written with a new force and meaning the old motto of democracy: "Equality of Opportunity." Men have for a long time demanded no less. The problem of the world's future is to make them content to take that and demand no more.

World trade cannot be a one-sided affair. Capital must be considered as well as labor, because they are "useless each without the other." When a plant ceases to be remunerative, it must be shut down. No

miracle will keep it running indefinitely at a loss. But then the employee is out of work. He sees, not far ahead, the prospect of suffering for himself and his family, or removal to some more favored land. Even if he is able to persuade some crack-brained enthusiast or some coldly selfish politician to vote him a support at the public expense, under compulsion of law, neither can that last forever. Sooner or later all outside resources are exhausted. Capital must insist upon its fair remuneration and labor must insist upon a fair wage and no more, in the wide lists of the open world. Back of both, as behind most of the great movements and achievements of the race, stands the stern and compelling figure of death, their final umpire.

Great and true analogies often lie before our eyes for ages until we learn at last the interpretation. This material world is a creature of the law of reduction to a common level. Every inch of fertile field, every valley that delights the eye, had its birth in sterile mountain fastnesses. Everywhere, incessantly, moisture and heat and frost and wind and running water are at work, leveling the earth. Infinitesimal molecules of vapor do what no human enginery could accomplish. The crag splits, and boulder turns to shale, the rubble carried along by the torrent becomes river sand, the glacier grinds stubborn rock to powder. Nature is the greatest of all democrats, and she never knows defeat.

Fittest Will Prevail

The moral world is a separate sphere, where the humble may climb and the lowly be exalted. But in material things, the law of the common level prevails. The day is coming, some hints of its dawning may already be seen, when trade everywhere will be carried on upon a more equal footing; when commerce will be a battle between peers. It is the part of men both brave and wise to disband the mercenaries, to come out from fortifications that the years have undermined, and to work in the open for advantages that will ultimately be distributed, like alluvium on the river delta, evenly over the whole surface of mankind.

The capture and the holding of foreign markets will depend, in the long run, on the same things that make domestic success or failure. In the not-distant future, wage scales, profit percentages, all the conditions of production will more nearly standardize themselves automatically all over the world. Then nature's master hand will apportion different forms or divisions of industry according to the plan of her own handiwork. Then individual and national qualities will maintain a world-wide competition, and the fittest will prevail. In the continual advancement of a community become as universal as the atmosphere that wraps the common earth on which it lives and labors, the race will, indeed, be to the swift and the battle to the strong.

Bold Brevities

I never said that Hitlerism was preferable to Stalinism. I said that they are the same thing.—*Representative Clare Luce of Connecticut.*

The one incomparably powerful means of exploitation is the State. It is also the safest means, because it is irresponsible. It is exempt from all the basic sanctions of ordinary morality.—*Albert Jay Nock.*

Private industry in the United States has not been successful in effectively opposing government entry into business because it lacks the singleness of purpose and zeal which motivates proponents of the planned economy idea and socialization of business.—*Frank McLaughlin, President of the Puget Sound Power and Light Company.*

Though we all suffer in some degree from the errors of our fellows, we suffer in supreme degree if it is the mistakes of the government, for the government is so powerful that it carries folly further than an individual can do.—*Henry M. Wriston, President of Brown University.*

In what are commonly regarded as conservative parties, there are almost as many people wanting to develop totalitarian state powers for their own purposes as there are on the other side.—*Friedrich A. Hayek.*

Mark you, these costs do not include rent, labor, light, taxes, the butcher's baby's shoes, the butcher's wife's girdle or any profit for the butcher.—*Mayor Fiorello H. La Guardia, in his account of the cost of meat from New York's municipally owned and slaughtered steer.*

Everybody sympathizes with Labor with a big L and nearly everybody manages to forget labor with a small l.—*Topics of the Times* in The New York Times.

I have just learned what we voted for. Here we've passed it without practically a single soul knowing what we were doing.—*Senator Scott W. Lucas, commenting on the Wherry-Shipstead amendment to the price and wage stabilization act abandoning the decade-old parity principle for farm prices and substituting a cost-plus formula.*

The proposal seemed "so ridiculous nobody thought it was worth while to debate it."—*Senator Alben W. Barkley, commenting on the same amendment.*

There is no freedom in the world today. Let us not be fooled about it.—*Representative Everett Dirksen of Illinois.*

Damn it, I'm no politician. I don't smile.—*General George S. Patton.*

The workers of this generation have had to fight to establish their freedom; and they do not understand that they have got to stop fighting to preserve their freedom.—*Donald R. Richberg.*

People do not realize that the western nations of Europe are on a decline, economically, industrially and politically.—*Nicholas Murray Butler.*

No democratic government should seek to achieve its ends by questionable methods or doubtful legality, or should explain them afterwards by dubious logic or light-hearted evasions.—*Alan Valentine, President of the University of Rochester.*

In war as in peace, the Russians belong with us, and we belong with them in all sincere efforts to achieve international labor solidarity and lasting world peace.—*R. S. Thomas, President of the United Automobile Workers (CIO).*

The fact is that the longer a man works for Uncle Scrooge the less his value to private business. There is no line of prospective employers in Washington eager to grab off ex-congressmen or executives who have sat out their usefulness.—*Secretary Harold Ickes, in a plea for pensions for federal officeholders, presented as a public service by the International Latex Corporation.*

Democracy is a raft that will not sink, but your feet are always in the water.—*Fisher Ames.*

The Americans sent us thousands of millions of pounds worth of munitions all through this war without making any charge for it.
—*Winston Churchill.*

We cannot for a moment surrender to what Winston Churchill called "the craven fear of being great." Power cannot for a moment be left idle like money in an old sock.—*Joseph C. Grew.*

The American people are in the pleasant predicament of having to learn to live 50% better than they have ever lived before.—*Fred M. Vinson.*

The Right to Borrow

Bretton Woods Saves the World from the Creditor Complex

By E. A. Goldenweiser*

THERE IS one criticism (of the International Monetary Fund) which runs through all of the dissenting opinions that have been made public. It has to do with the fact that under the Fund arrangement, countries will be assigned quotas that have been determined in accordance with various factors of resources and requirements, and the ability of the different countries to draw on the Fund will be given them as a matter of right, provided they need the foreign exchange for purposes consistent with the objectives of the Fund and provided they in general abide by the undertakings involved in participation in the Fund. The critics do not like this arrangement because it places on the Fund the burden of proof for stopping a country from drawing on it rather than placing the burden of proof on a country to show good cause why it should be permitted to draw on the Fund.

The critics fear that the Fund will encourage extravagant behavior by participants and that it may ultimately do more harm than good. To them the proper procedure is for a country which needs exchange, even temporarily, to be offered an opportunity to present its case to a group which will be in a position to pass upon its credit standing and its good intentions and to grant it such drawing power and on such conditions as in the group's judgment will be good for the country as well as for the creditors. It is on this basis that various groups have proposed that the Fund as such be disapproved and that an incidental department be established in the proposed International Bank for the purpose of making stabilization loans when, if, as, and in a manner that the Bank's directors may approve.

Dictatorship by Debtors

An extreme position on this point has been taken by some critics. It has been said that the finance ministers of different countries confronted with the task of promoting prosperity at home and under the influence of powerful pressure groups might pursue unsound expansionist policies in the assurance that their international payments can be balanced by drawing on the Fund. Their countries would, therefore, go deeper into debt than they would otherwise be able to do. The consequence of this, it is stated, would be an ultimate collapse worse than

would be the case if the Fund were not established. This argument completely ignores the many powers that the Fund has to prevent such abuse of its resources.

This opposition by the bankers to the Bretton Woods proposals should be viewed in the light of their background and experience. By training and viewpoint they look at matters of this sort as creditors and to them the rules for debtor-creditor relations are the principal—almost the sole—standards for measuring financial arrangements. Also they are trained to be conservative and to look to the past for guidance, no matter how little there may be in the past that would make one wish for its repetition. A creditor's ideal for the Fund would be a small fund, because that would work towards conservatism, and a fund to which a prospective borrower would come, hat in hand, presenting all his needs, explaining his behavior, submitting to whatever conditions may be imposed upon him, and agreeing to abide by rules to be made for him by the creditor.

Creditors' Paradise Lost

From a creditor point of view this is the only sound arrangement. However, it entirely misses the point of the new proposal. What is proposed is not primarily a lending institution, but a new monetary standard supported by a common pool of resources. It is hoped that this will provide as much stability as is consistent with the maintenance of prosperity and at the same time offer as much flexibility as may be necessary for the same purpose. The intention is to restore confidence to various countries in their ability to make broad plans for the future, with the assurance that they can increase their international monetary reserves by recourse to the Fund whenever they have legitimate need to do so. They would not merely be told, as the bankers would tell them, that if they are up against it they may be bailed out of their difficulties by a more or less sympathetic group on more or less tolerable conditions. What they are to be told is that they are part of an international agreement by which all countries will be given an equal opportunity to obtain assistance from a common Fund to mutual advantage. This and this alone will give them the assurance that they need to face the great difficulties which are bound to develop in the postwar world.

It is partly for this reason that the Fund must be relatively large; it must suffice to convince a great

*From an address to the Academy of Political Science in New York by the Director of Research of the Federal Reserve System.

many countries that there will be enough to see them through. Its funds must be available for use on conditions known in advance, because only in that way can countries be free to proceed to make their plans for reconstruction of world trade.

If the Fund is not geared to accomplish this purpose it might as well not be started, because a country with good credit standing can always find a lender, provided it is willing to meet the charges and conditions imposed upon it. It should be kept in mind that what we are looking for is not a creditor's paradise, but a functioning world economy.

The alternatives with which we are confronted are not necessarily adoption of the Monetary Fund on the one hand and chaos on the other. What is much more probable is that, in the absence of the Fund or under an arrangement such as is proposed by the bankers, what would develop would be highly restricted conditions of world trade. Each country would adopt such rules and regulations as would protect it against inroads from the others. No country could accept restrictions on its freedom to make unilateral or bilateral arrangements or to use various controls and multiple currencies, unless it was given assurance that there would be a group of its peers to stand by it if economic conditions should be temporarily so adverse as to make it impossible for it to cope with them alone. What would happen under the bankers' proposal would be at best a very slow and halting recovery with continued discouragement and there would be grave danger of an ultimate breakdown and chaos.

Bankers' Occupational Disease

There is a direct line of descent from the attitude of the bankers toward the Federal Reserve Act when it was being proposed to their attitude toward the International Monetary Fund. Now as then they express sympathy for the objective, but think the methods too complicated and the management too inexperienced and too political. It may be admitted that public agencies make errors of judgment, but these errors are less likely to be biased in favor of any one viewpoint than are errors made by a special group. They may at times delay progress but they do not prevent it. Special groups, however, are prone to make what the statistician knows as biased errors—errors that always point in the same direction. Such errors are cumulative and not only delay but prevent progress and often lead to retrogression. There is, it must be added, no unanimity in the opposition of bankers to the Monetary Fund. Many individual bankers and banking groups have come to its support.

The bankers apparently would like to do for the Monetary Fund what they would have liked to do for the Federal Reserve System. They would

like to swathe it in a layer of mild and considerate objections and then bury it under the sod. This attitude is an occupational disease and it can be counted upon to appear whenever anything is proposed that does not conform to the narrow horizon of the creditors' outlook. If the world is to move forward institutions that would help to develop world resources to the benefit of all countries and all groups of people it must disregard the advice offered with all sincerity and with deep apprehension by professional creditors and to go ahead with proposals that will lead to the establishment of a new multilateral monetary standard. It is only in that direction that there is hope for progress towards world-wide prosperity and for the survival of free enterprise in a peaceful world.

Unwinding the Wind

(From hearings before the Subcommittee of the House Committee on Appropriations on the National War Agencies Appropriation Bill for 1946)

Mr. Wigglesworth: In the Office of the Director for Reconversion, you just stated the Office assisted agencies in developing demobilization and recovery plans. What do you mean by demobilization; demobilization of federal agencies or demobilization of military forces or what?

Mr. Vinson: Well, it is demobilization of military forces and reconversion plans of various agencies, the War Production Board, the War Labor Board, the War Manpower Commission, Office of Price Administration, and various agencies.

Mr. Wigglesworth: Does that include winding up of war agencies, plans for that?

Mr. Vinson: The statute speaks of plans for the winding up of war agencies, yes.

Mr. Wigglesworth: Has any definite progress been made along that line; could you give us any plans that have been developed for winding up any war agencies at this time?

Mr. Vinson: As I recall—and I will check to be certain that my memory is correct—back sometime before I took this office, I think it was in January, Justice Byrnes called upon the Budget to make studies and recommendations in regard, as I remember it, to the consolidation or abolition of permanent agencies, and the Budget wrote him a letter—but in any event after I came in I renewed the delegation of the job to make recommendations along this line.

Mr. Wigglesworth: Is there anything specific you could give us for the record showing when it is contemplated that the so-called war agencies will be wound up in terms of the conclusion of the war?

Mr. Vinson: No sir; I cannot give you either the date or the plan.

Adrift on the Deficit Sea

A "Prophet Not Without Honor" Looks at the Future

*By James A. Farley**

WILL our government, after the war, live within its income and foster business growth, or will it take the easy way of deficit financing leading to political regimentation of business and unavoidably to the destruction of the American system of free enterprise?

As I consider these questions my mind goes back to 1933, when I went to Washington as a part of an administration committed to the principle of a balanced budget, to the correction of certain practices in our security markets, to the strengthening of our banking system, to the extension of certain benefits to labor, to the establishment of a plan of social security, and to certain other reforms—all of which, as then contemplated—were thought to be consistent with the tenets of free enterprise. In the years that followed, this purpose was sometimes lost to sight in the scramble by opposing groups for power, for benefits, and for the advancement of pet theories of government. As government yielded to the pressure of one group, others were encouraged to increase their demands and to exert greater pressure for the special advantages useful to them.

Whetted Appetites

Where, we are prompted to ask, is this trend leading us? The question, casually considered, may seem remote from everyday banking, but I submit that the changes which have occurred in your balance sheets in recent years are, in a large measure, merely symptoms of this growing tendency to look to government for subsidy, for credit, for insurance; in short, for security against risk of every kind. I am speaking now of a trend which was pronounced at the time of our entrance into the war, and not of activities assumed by the government in the promotion of our war effort. The question now is, whether at the end of the war this trend will be accelerated, or whether we may look forward to a period in which a serious effort will be made to balance the budget, in which business can be reasonably free from the threat of more controls and more government competition, a period in which we can test by experience the value of the many new laws which have been placed on the statute books during the past few years.

The prospect is not altogether encouraging. The appetites of many special groups have been whetted in the past year by the tender morsels served them

at the Washington table. They have succeeded in placing representatives in many important places in government, and their spokesmen have become adept in special pleading. Let us consider the problem of attaining a balanced budget. It is estimated that the annual cost of servicing the debt after the war may equal or exceed the total national budget for any peacetime year prior to our intensive preparation for war. This fact alone should be sufficient to direct the thinking of all Americans along the lines of effecting, when the war is over, every possible economy in government expenditures. Instead, we find that the groups which advocated liberal spending in the past have even more grandiose plans for the future.

Documenting the Millennium

One such advocate had occasion not long ago to expound this philosophy of government to a committee of the United States Senate. The statement was a sort of blueprint for a fuller, richer life. No man interested in the welfare and happiness of his fellow citizens could read it without hoping that the time may come when Americans may enjoy the great advantages there enumerated. The first point mentioned was the need, when the war is over, for full employment, with higher wages and shorter hours. This, it was argued, should be accomplished by having the government stand by, ready at all times to provide employment for those not absorbed by private business. Nor was the farmer forgotten. It was proposed that government place a floor under farm prices and so insure the farmer against a fall in the market value of farm products. And that is not all. The farmer would be provided with better housing, and rural electrification would be expanded to the utmost to make rural life more comfortable.

Turning to the problem of improving the health of the American people, this remarkable document would have the government assume the responsibility of building hospitals in all communities not now having such facilities, and of providing adequate medical care for all citizens. Likewise, under this philosophy, better education would be made available to everyone. The statement was made that technical and higher education must, in the future, be made just as universal as secondary education has been in the past. There were other recommendations for government guaranty of a better life and greater individual security. Many were laudable

*From an address to the Maryland Bankers' Association, April 16, 1945.

objectives, but there was one point, to some of us a very important one, which received only casual reference. I refer to the simple question: "Where is the money coming from?"

The school of thought which has been prominent in recent years in advocating public spending would answer simply by saying that if government sees to it that we have a high national income, the budget will take care of itself. One group of self-appointed experts on budgetary matters would go even further and assure us that a balance between income and expense is not necessary, and that there is no reason why the government of the United States should not go on indefinitely spending more than it collects. We can be thankful that this brand of "progressive" thinking is not accepted by the great majority of our Representatives who make the laws and administer the various departments of government. The fact remains, however, that the advocates of liberal spending are still retained in important official positions. Periodically they are allowed to expound their views on financial questions under circumstances seeming to indicate that they have substantial official backing. This sort of thing has been a constant deterrent to the development of confidence in the financial policies of the government on the part of people in every walk of life.

"Baits," "Lures" and Balanced Budgets

It is my considered opinion that nothing could contribute more to the building of confidence in the future of this country, here and abroad, than unequivocal assurances, backed by action, that we will strive to attain a balanced national budget at the earliest possible time. In this respect perhaps we could learn a lesson from Prime Minister Churchill, who recently had occasion to define the position which he believes the British Conservative Party should take in the next general election. He said: "There is one thing we shall certainly not do. We shall not bid for votes or popularity by promising what we cannot perform, nor shall we compete with others in electioneering baits and lures. It would be very easy for us all to promise, or even to give each other, presents, bonuses and gratuities in a most enthusiastic manner; but if we woke up in the morning and found that the pound sterling only bought 5 shillings' worth of goods or services, we should have committed a great crime."

We must, of course, achieve and maintain a high national income after the war, and we must reconcile ourselves to carrying a heavy tax burden for many years. At the same same time we have to recognize that the levying of taxes is not the sole means of bringing the budget into balance. Control of expenses is also important, and we must give due regard to both factors if we are to solve the enormous financial problem which will confront this

country at the conclusion of the war. This is no time to lay plans for things which are not essential and which we cannot afford, no time to encourage pressure groups, no time to lead people to think that all self-denial and sacrifice will end with the armistice.

Just as there has been no absence of convincing assurance that all possible effort will be made to balance the budget after the war, so we are left to speculate on the question of the postwar attitude of government towards private business. Businessmen are aware of the challenge confronting them. Their appreciation of the importance of maintaining high employment is evidenced by the fact that they speak of the number of postwar jobs which they hope to offer as an objective of at least equal importance with the volume of goods which they plan to produce. It can be said with certainty that business leaders are in a frame of mind to make free enterprise work more effectively than ever before. But what will be the attitude of government? Will business be encouraged to go forward, to expand and improve plants and to make commitments with labor, with producers of raw materials and the distributors of finished products?

This question is uppermost in the minds of bankers and businessmen throughout the nation. Not that we are fearful of the avowed enemies of the free enterprise system. They are few in number and they seldom attain positions of power. The men who will bear watching are those who profess to believe in free enterprise, but with certain conditions always attached, such as: provided it is helped by government, supplemented by government, regulated by government, protected by government against its own weaknesses, etc., etc. These are the same self-styled friends who say: "If industry doesn't provide full employment, government must step in and take over," having all the time a plan for that purpose in their inside pockets, ready to be flashed on the public the minute industry fails to perform to their liking.

The Technique of Seduction

This constant goading of business, of threatening more regulation and more government competition has prevented us from realizing the full benefits of a free economy. You bankers have had first-hand experience with government competition. I understand that in the lending field you are required to compete with forty-six different public agencies, and that you are now being threatened with more. You have indeed had a full experience with that technique by which officials soberly proclaim that credit for this or that is needed, and that unless the bankers meet the situation government will do the job. This kind of announcement, as we have seen many times, is an invitation to all groups to come

in and ask for help. Soon a new pressure group is organized, and free enterprise is threatened with the loss of another foot of precious ground.

In the early years of the depression it was necessary for government to supply credit for certain purposes which could not for good reasons be satisfied by private lenders. The need then was obvious to everyone. Today the situation is entirely changed. Our capital markets are functioning vigorously and effectively, both as regards equity and long-term debt. The banks are on the job looking for chances to lend money. I know that you are pounding the pavements and pushing into the byways looking for businesses requiring bank credit. I have been particularly interested in reading of the formation by banks in various parts of the country of your so-called "bank credit pools." The wisdom of adopting these measures is clearly apparent. By these means you have made certain that no credit application need be denied before it has been carefully scrutinized by a group specially set up to find ways of satisfying credit requirements which, for one reason or another, fail to meet the tests of a particular lending institution. To me, and I am sure to many people, these credit pools are symbolic of the desire and determination of bankers to make sure that no legitimate business will be hampered by lack of bank financing in the great program of production and employment to which we look forward after the war.

No Sheer Weight of Numbers

What more can bankers do to insure a healthy economy after the war? What more can they do to help arrest this invasion of government into the sphere of business? The methods of influencing government which have been most popular in recent years are not available to you. You cannot go to Washington and, by the sheer weight of your numbers, computed in terms of ballots, have your views accepted, no matter how sound they may be. You have to rely instead upon your ability to search out the truth and lay it clearly before your fellow citizens. Your motives will often be questioned by people who claim to know better, and your recommendations will be trampled upon by groups bent upon immediate gains without regard to final consequences. In time, however, your opinions will be heeded, and it will be found that you have contributed greatly to intelligent public thinking. It is vital that you continue to study and express your thoughts on the great issues confronting us. All have financial implications, all have a bearing on the momentous question of whether we shall restore order to our domestic financial affairs, and so maintain the strength to exert wise and constructive influence in the solution of international problems.

AFTER THE WAR

A Song—composed by A. P. Herbert, sung to the tune of "The Mountains o' Mourne"—on the Beveridge Social Security Plan.

"I don't see," said William, "just how we shall win:
In fact I'd be glad if I saw us begin.
But they tell me that don't worry no one no more,
For the one thing that matters is 'after the war.'
Well, I wouldn't have guessed, but from all that I've heard
This old war is the best thing as ever occurred.
When you think how much better we're going to be—
Them Utopias is nothing as far as I see.
And if you say 'William, how can that be so?'
Well, there, I'm that ignorant I wouldn't know.

*Oh, won't it be wonderful after the war?—
There won't be no war, and there won't be no pore.
We won't have to work if we find it a bore,
We'll all get a pension about 24
And there's only one problem I'd like to explore—
Why didn't we have the old wa-er before?*

"It ain't against Hitler we're fighting, they say,
But the Economic System what led him astray.
It ain't the nice Germans what murders the Poles,
But them old Vested Interests as poisons their souls.
Poor Hitler of rubber and oil was bereft,
So we'll give him what rubber and oil we've got left;
And this here arrangement will end, as you'll see,
In a much better world both for you and for me.
But if you say 'William, how can that be so?'
Well, there, I'm that ignorant I wouldn't know.

*But won't it be wonderful after the war?—
We'll all have a carriage-and-four at the door.
There won't be no sick, and there won't be no sore,
The beer will be better, and quicker, and more;
There's only one question shakes me to the core—
Why didn't we have the old wa-er before?*

"If there's one thing we're sick of, it's the State, there's
no doubt—
All them cards, and inspectors, and messing about;
If there's one sort of snake we'd all send to the Zoo
It's them uncivil servants and burrowcrats too.
But in this new Heaven and Earth what's ahead
There'll be nothing but nationalising, it's said,
Which means the old world will be run in Whitehall,
And before we know what, we'll be burrowcrats all.
But if you say, 'William, how can that be so?'
Well, there, I'm that ignorant I wouldn't know.

*"Oh, won't it be wonderful after the war?—
There won't be no rich, and there won't be no pore.
We'll work for the State, and we'll knock off at four,
And we won't work at all if we find it a bore.
There won't be no sick, and there won't be no sore;
The beer will be better, and quicker, and more;
And there's only one avenue I'd like to explore—
Why didn't we have the old wa-er before?"*

Demonstration by Mars

How Full Employment Is Possible in Peace

*By Representative Frank E. Hook**

WE HAVE demonstrated during the war period that our productive capacity can be expanded, can be shaped to fit the consumer needs of the country as a whole. During the war, the products of our tremendously expanded industrial capacity have been consumed in the national fight for survival against fascism. There were cynical and timid men, back in 1940 and 1941, who swore we could not meet the challenge, who called the President's staggering war production schedules fantastic, who mocked that we were shooting at the moon. Well, you did it, you shot at the moon. You men in the shipyards, your brothers and sisters in shops and factories—and in the fields, too—throughout the country did it. The impossible production schedules were possible. The terrible necessities of war proved what all the years of peace had not done, proved what only a handful of men—called dreamers and idealists—believed possible. It proved that the American economic system could provide jobs for all, could support a program of full employment without abandonment of the fundamentals of democracy.

Right now, our country is turning out goods and services at the rate of \$200 billion a year. Our total national income stands at about one hundred and fifty-six billions a year. The tax yield alone on our national income is greater than the total income itself was for the year 1932.

Terrifying Fact

While this amazing growth is heartening, it is also terrifying when you realize that of the \$200 billion worth of goods and services now being turned out by employed Americans, about ninety-five billions is being purchased by the United States Government for war purposes. The government's purchases for national defense purposes after the war can be expected to drop to between five and ten billion a year.

Now, these figures of total national income and tax yield and productive capacity may not mean too much to you. Another figure, really the basic figure behind all these billions of dollars, will, I am sure, be more meaningful, have a lot more personal impact than these astronomical terms. In 1932, the year when our total national income was \$40 billion, there were 28 million people employed in this country. Today there are 55 million people employed.

That contrast, the difference of more than 20 mil-

lion people employed, is the guts of the problem that faces us today. Leaving out the improved wage rates, which your unions have negotiated, the increase in the working week, and the other factors which have contributed to a higher income for the individual workers, the real factor in increasing the total national income is the number of people employed. This figure is the lowest common denominator in determining the national economy, in prophesying the national well-being.

Sixty Million or Else

If this country is to play its part in stabilizing peace, in contributing to international prosperity which is the only guaranty of peace, we have to see to it that the number of employed Americans does not fall below the 55 million we now have. More than that, our economy must provide jobs for the men and women released from the Armed Services after hostilities. Taking into account those now employed only because of the war emergency who will voluntarily withdraw from the work force after the emergency, that means in the neighborhood of 60 million jobs. It means that we cannot longer survive in an economic climate of widespread unemployment which we had in 1929, or even in 1940, the year before we entered the war. Another depression like that which grew out of the planlessness of the last armistice, and another war as the inevitable consequence of the next depression will wither the very roots of democracy, will blast our way of living from the face of the earth. To avoid this by planning now is a simple matter of national survival.

If the American people have the courage and the daring, we can survive, we can avoid World War No. 3 and the total destruction of democracy. We can lead the way out of the wilderness of economic insecurity into a promised land of jobs for all and peace for the world.

Whether we, as a nation, have that courage is another story. Certainly, all of us here want full employment after the war. Most Americans want full employment. But there is an all too widespread and dangerously defeatist attitude towards our chances of getting it. A recent Gallup poll showed that almost 75% of a cross section of Americans believe that there would not be enough jobs to go around after the war, believe that another depression, sooner or later, is inevitable.

Now, I don't believe that at all. I have every faith in this country's ability to defend itself against

*From an address to the Marine and Shipbuilding Workers of America, March 23, 1945.

the ravages of peacetime depression as it has defended itself against its enemies in wartime. Not only do I believe that we can do this, but I believe that it is the responsibility of the government to put as much into the offensive against poverty and unemployment as it has put into the offensive against Nazism and Japanese imperialism. The two offensives are part of the same campaign strategy, for if we relax on the peace front after the war is over, we will be giving aid and comfort to the enemy our sons will be fighting in World War No. 3.

There isn't any way of writing a blank check for a rosy future. There isn't any single way we can achieve full employment after the war, no single factor which will compensate for the withdrawal of \$95 billion worth of government purchases from our economy. You would be rightly suspicious of any legislative plan I would offer you as a cure-all for our postwar ills. There just is no such thing. All the factors of our complicated society must be weighed if we are to have a balanced economy of abundance.

More than any other phenomenon that has been demonstrated by our war experience is the interdependence of all the parts of society—labor, management, government, and consumer—to break it down only into its crudest economic segments. Whatever planning we do toward the objective of 60 million jobs must take this essential interdependence into account.

There is now before both Houses of Congress legislation which does just that. The Senate bill, titled S. 380 and the House bill titled H. R. 2202, are essentially the same. There are differences in detail, but the objectives of the two bills are the same.

The Right to Work

Let me read to you from the declaration of policy which prefaces both bills:

"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."

For the first time, the National Congress in the full-employment bill of 1945, states that gainful employment is a right of all people. It does not lay down the principle, as some of its opponents say, that the country owes anyone a living. It simply provides that the opportunity to work should be offered all who need and want to work.

The full-employment bill is not a guaranty that all workers will have jobs after the war. It is in no way an adequate postwar economic program in itself. We just can't pass the bill and sit back to

wait for the millennium to arrive. As you will see, the bill in itself recognizes that there is no one cure-all for the problems of the postwar period.

Briefly, what the bill does is this. It gives the Federal Government the responsibility of cooperating with all the parts of our economic structure with the view to achieving full employment. Where necessary, it provides that Federal investment and expenditures would be used to this end where private business fails to do so.

The bill states that: "It is the policy of the United States to foster free enterprise and the investment of private capital in trade and commerce, and in the development of the natural resources of the United States."

No one in any walk of life, whether he clips coupons for a living or sweats behind a welder's mask, can object to that.

Mereley a Matter of Words

What some of the coupon clippers do object to is the language of the bill that provides "to the extent that continuing full employment cannot otherwise be achieved, it is the further responsibility of the Federal Government to promote such volume of federal investment and expenditure as may be needed to assure continuing full employment; and such investment and expenditure by the Federal Government shall be designed to contribute to the national wealth and well-being and to stimulate increased employment opportunities by private enterprise."

If you just substitute the words "national defense" or "the war effort" for the phrases "full employment" and "national well-being"—in this part of the full-employment bill, you will have a legislative expression of just what has been going on in this country for the past four years—the war years. Where private business was unable to carry the burden of financing war production, the Federal Government stepped in. Where more than financing was needed, the Army and Navy and other agencies built their own facilities and produced their own weapons. The coupon clippers certainly can't kick about their profits during the last four years, but when essentially the same procedure is proposed for national defense against poverty and unemployment, you hear screams of un-Americanism and Communism.

The candidate of these same people who fear that the full-employment bill will mean abandonment of the American system of government, said in September of last year, in the middle of the Presidential campaign—and here I am quoting Gov. Thomas E. Dewey, "Government's first job in the peace-time years ahead will be to see that conditions exist which promote widespread job opportunities," and further in the same speech, he said ". . . if there is one thing we are all agreed upon, it is that in the

coming peacetime years we in this country must have jobs and opportunity for all. This is everybody's business. Therefore it is the business of government." Mr. Dewey said that.

In addition to stating the broad principle of governmental responsibility for the economic welfare of its citizens, the full-employment bill calls for an annual production and employment schedule, including not only anticipation of federal investment and expenditure but also that of all groups in the country. This economic schedule whose purpose is to appraise the number of jobs needed to provide full employment in a given period will be presented by the President every year at the same time he presents his annual budget message covering strictly government expenditures. If the President, after his appraisal of the number of jobs needed, the total of expenditures required to provide those jobs, and the prospective volume of business, finds that there is unemployment or the threat of unemployment he is required, under the bill, to transmit to Congress his program for creating jobs through the stimulation of private enterprise and through necessary government programs.

Congress is the Doctor

At this point in the legislative process under the bill, the responsibility for creating full employment falls upon the Congress. And this is one among

Tricks of Our Trade

When it comes to bringing representatives of these nations to this country to teach them the crafts of our workers, only to have them return home to teach their countrymen these crafts and then wake up some day to find our own craftsmen out of a job because their work has been shut down, because this work is being done in some foreign country, we just can't believe that this good-neighbor policy should go that far. It would be bad enough if these foreigners returned to their home country and did work for that country alone, but in a few short years we will find private engraving and printing plants established in these foreign countries doing engraving and printing for countries that now have their work done in the United States.

In addition to this very serious loss of jobs for our American workmen there is another question involved which should be taken into consideration by the Treasury Department, and that is the counterfeiting of our paper money by citizens of one of these foreign countries.

We do not mean to insinuate or imply that any of those who are sent to this country would ever be a party to such a dastardly plan as to counterfeit the paper money of the United States, but should these men who are brought into the Bureau of Engraving learn the tricks of the trade that go into the manufacture of our paper money, return home and teach the engraving and plate-printing crafts to other persons in that country, wouldn't there be a great danger that some of those taught in those countries might engage in such a plan and cause no end of trouble for this country?—*From an editorial in the official organ of*

many regards where this legislation is unprecedented. It specifically directs the Congress of the United States to make a study of the national economy and on the basis of that study to pass legislation designed to maintain a healthy national economy. Now, during the past twelve years there have been proposed and passed many bills designed to promote a healthy national economy. But they have been piecemeal bills, dealing with this or that economic group—the industrial worker, the farmer, the small businessman, etc. And largely they have grown out of desperate immediate need. The difference between that kind of legislation, much of which I supported as necessary to bring the country back from the black depths of the thirties, and the full-employment bill is that it seeks to determine the need before it becomes desperate. I don't know whether the bill in its present form will actually serve as well as some other device might serve in anticipating our employment needs, but it certainly is a step in the direction of applying sound business practice to government activities. No businessman who hoped to stay out of the red side of the ledger would neglect to very carefully survey the needs of his business before planning his budget. The full-employment bill proposes to apply this sound business axiom to the biggest business in the world—the business of keeping some 140 million Americans well fed, well clad, and decently housed.

the International Plate Printers, Die Stampers, and Engravers' Union of North America, protesting an arrangement made between the State Department and the United States Treasury to train representatives of foreign governments in the art and science of engraving bank notes, bonds, currency and so forth.

Suckled on Security

We have been feeding our young on security ever since 1932. A boy who was fifteen years old during the bank holiday is twenty-seven today—and if he is still alive, and notwithstanding the heroic way in which he is fighting our war, still he is one of millions of young Americans who grew up along with unemployment relief, the WPA, the CCC, old age pensions, payments to farmers for crops they never grew, payments to actors, payments to artists, payments to writers—the whole parade of government-issue benefits. We called it social legislation, and much of it was admittedly overdue. Much of it we want to keep. But good or bad, useful or ridiculous, the young man of twenty-seven must have a very distorted conception of the relation between his lot in life and the United States Treasury. We have taught him that security is something he has a right to expect, and that is not the truth. The truth is that he, like his honored forebears, must *earn* security by hard work. Believe me, it is not going to be a pleasant task to plant that idea in the minds of millions of returning young soldiers, who because of their youth have never had a peacetime job, who went from schoolbooks to bombers and tanks, who have never had an opportunity to experience the satisfying thrill of earning their living. —Charles E. Wilson.

Books

A Kansan in Russia

THERE IS a saying that before the Russians will take you as a visitor they know more about you than you know about yourself. They must have had a file on W. L. White. They knew, therefore, that he was a political liberal, that he had many friends and associates on the left side of the street and that his integrity was beyond question. If the file contained, as it probably did, an analysis of everything he had ever written, there was nothing there to warn them. And so when Eric Johnston, who had been invited to make a good-will tour of the Soviet Union as the ambassador of American business, asked to take White along they very politely said yes, with no premonition of evil, even knowing as they did that he would write a book about them. They probably are still wondering how they could have been so mistaken, or perhaps they think they were taken in. But the explanation is simple. They had no file on Kansas. Therefore they had no idea that the quality of being a Kansan is in addition to whatever else a man may be. A Kansan's perceptive apparatus is like a candid camera. He is born that way. From this fact it follows that his natural access to the inwardness of a thing is through the outwardness, wherefore he sees the surface with a devastating clarity. Moreover, where the phrenologist places on a man's head the bump of veneration, there is on the head of a Kansan no bump at all, but a flatness, sometimes even a slight depression. So, to be observed by a Kansan and then to see for yourself what he has seen, as by reflection in writing, may be good for the soul if the soul is tough, but definitely bad for the ego. That is what happened to the Russians.

Never having been in Russia Mr. White could not have known what he was going to see; therefore he could have had no idea beforehand how he would react to the Soviet life. His book* was probably as unexpected to him as it was to the Russians. They have bitterly denounced it, saying and no doubt believing it is capitalist propaganda. Russophiles of this country have been enraged by it. Even Eric Johnston has felt obliged to say that he had nothing to do with it. Others have said: "The explanation is simply that White does not like Russians," as if there had to be an explanation. But he did like the Russian people; his sympathies went out to them. One of the beautiful passages in the book is the story of a bouquet at the first landing of the American bombers on a Russian airfield—

"Lieutenant General Perminov is shaking hands with the first pilot and then a dark-eyed Russian girl in Red

*"Report on the Russians," by W. L. White. Harcourt, Brace & Co., New York.

Army uniform hands him a bouquet of flowers, while Soviet news cameras grind. The pilot takes it and thanks her with an embarrassed grin.

"It is a sad little bouquet, the flowers are scrawny and bedraggled. But then I remember that the town's greenhouse, if it ever had one, has undoubtedly been bombed. Someone must have laboriously picked these in the meadows.

"The pilot is now working his way out of the crowd, still grinning with embarrassment as he holds the sad little bouquet of field flowers, when an NKVD man takes it from him with a quick tug and returns it to the black-eyed Red Army girl. The pilot looks bewildered. A second pilot is now shaking hands with General Perminov. As he turns, the Red Army girl hands him the bouquet. He also grins with embarrassment as the Soviet news cameras grind. So on with the third pilot, the fourth, the fifth—all have their moment with the town's only bouquet."

In Moscow he broke a date with a lovely Russian actress when it occurred to him that if he wrote anything to offend the Russians the police might remember that she had been with him alone and accuse her of treason. One line in the book is a message to her telling her why he did it.

What he disliked was the system—the ceaseless espionage, the way everybody is watched, the discipline of fear, and especially its want of tenderness for its own people and the way it has crippled their minds. Even so he can see where good has been worked and gives credit. There was a touching incident one evening in the remote Republic of Kazakhstan. Some young Kazak artists who had been entertaining the American party went apart with their heads together, and:

"Then they come back to say that if I write of this trip when I return, they hope I will not forget the young Kazak artists, or the Kazak people for whom Stalin and the Revolution have done so much. Because before it, the Kazaks were a poor and fearful people, hiding in the high hills. But the government coaxed them down into the valley and there built dams for them and gave them irrigated land, and showed them how to plant orchards, and how to build for themselves many schools and this beautiful theater I have seen. And they have taught the young Kazaks to sing and play their own songs and stories in their own speech. So today the Kazaks are no longer a people huddled in the hills, frightened of others and ashamed of themselves, but a nation proud of itself. And if I write of the great Soviet Union, will I please not forget the small Kazak nation?"

That night White wrote:

"The thing I liked best of all about the Soviet Union, and it is one we would do well to copy, is the intelligently decent Russian attitude toward minority races. They are helped without being patronized, and they have developed self-respect and an understandable gratitude. If they have no real freedom, neither do the Russians. While this Soviet racial-colonial policy may not be so good as our handling of the Philippine Islands,

it is infinitely better than our bungling and thoughtless treatment of the Negro."

Probably what hurt the Russians most—the unforgivable offense—was what White wrote about the oversize pictures of Lenin and Stalin, everywhere and always the same,—“apparently painted by the same artist who does the portraits of the tattooed man, the snake charmer and the two-headed baby of the side show: from Moscow to Central Siberia exactly the same wrinkles around Stalin’s eyes, precisely the same few grey hairs in Lenin’s beard,”—and the Stalin statue, also everywhere and always the same. The last one he saw was at Tashkent, in the sickening desert heat, still “striding along in his long overcoat with his earflaps down, heavily gloved, just as he is under the Arctic circle.” But these standard effigies, endlessly repeated, are nevertheless worshipful objects, in place of the Ikons that were thrown away, and of course all that the Russians can believe is that White was wantonly disrespectful.

In Mr. White’s writing there is that sense of objective verity which leaves no doubt that he saw what he reports. One may take it or leave it. The only question could be of perspective and proportion, but he is himself mindful of the fact that there is always more than meets the eye, both good and bad, and so limits his conclusion, or puts the reader on notice that in making an unqualified conclusion he may be jumping too far. He saw what he believes to be some of the finest agriculture in the world and some of the worst industrial practice.

In evacuating industries and moving them bodily—personnel, machinery and all—from Leningrad and Moscow to points of safety beyond the Ural mountains the Russians performed prodigious feats. But for that matter so did the Chinese and for like reasons. For all their industrial progress, much of which is owing to borrowed technology, and for all the facility they seem to have in the use of Western tools, it is still a question whether the Russians can ever be really an industrial people. What it takes to make an industrial people is very difficult to explain. It is not a matter merely of being inventive. The Russians certainly are inventive in the arts, in medicine, in several branches of science. This is something else. It may be called a kind of hand-mindedness, or a way of thinking with the hands. It seems generally true that Western people are hand minded and Eastern people are not. When Colonel Cooper was building for the Russians the hydroelectric dam they were so proud of—the one they destroyed before the Germans could capture it—the writer said to him: “How do you feel about putting abroad our very latest know-how in these things?” He said: “Pooh! I know what you mean. But before we finish this job over there we shall have something much better here.” The question is

whether the Russians could go on to make something better for themselves, taking off from something they did not create, let it be a hydroelectric dam, a machine tool or a method. Nothing that White saw in the way of bad industrial practice could be taken as the answer. Nevertheless his observations are illuminating. This is what he saw in Moscow’s factory number 38, making the famous Stormovik plane:

“It is jammed full of the best American machine tools, but seems to lack proper organization. At one point, the assembly belt is a makeshift canvas affair. The floors throughout are uneven with holes in the concrete. Piles of metal shavings are everywhere. No one bothers to clean up. Many of the girls wear gunny sacks tied around their feet. Others have crude wooden sandals with a nail sticking up between the great and second toes. In these, they scramble around in the dim light. Here they are moving (by wheelbarrow) a load of unfinished parts which spill at a bump in the floor. The girls must stop to pick them up. Johnston falls back to whisper, ‘Back in the States the best rough test I know of the efficiency of any factory is its cleanliness. Any dirty shop is sure to be an inefficient one.’ Then he catches up with his guides and interpreters. Maybe these people figure there are 200,000,000 Russians and that it matters little if a few are inconvenienced? But this floor could be repaired at the cost of just one of these expensive lend-lease automatic drills of which this factory has such a profusion, and then its efficiency might rise as much as 25 per cent.”

Then beyond the Urals in Magnitogorsk, which is called the Pittsburgh of the Soviet Union, this is what he saw in an armament plant:

“By any standard it is not a tidy plant. If the floors were ever concrete they are now worn to gravel. Huge rusting chains and all kinds of metal rubbish lie around. However, all six of the blast furnaces as well as the open hearth ones seem to be working furiously, turning out their 7½ tons of steel daily. This is processed into everything imaginable from tank armor down to wire. The armament factory takes the prize for the most sloppily organized shop we have seen in the Soviet Union. Stockingless girls with crude sandals, lathing shells for the Red Army, stand on heaps of curled metal scrap from their machines. Occasionally they are protected from its sharp edges by crude duckboards. Some attempt is being made to remove the scrap. We see two girls carrying out a load of it on a Russian wheelbarrow, which is a kind of homemade litter, with one pair of wooden handles in front and one behind. It carries a modest wheelbarrow-load, but requires two people. They stumble along with it through the rubbish.”

These were not exceptional cases. The Russians were exhibiting these plants to the President of the United States Chamber of Commerce and they were proud of them. Observe that these conditions were all remediable. No American production manager could possibly tolerate them for one hour. It may be there is something in the West that the East can never buy.—G. G.

League of Nations Key to Our Planned World

IN THE YEAR 1937 the Assembly of the League of Nations, never having found the secret of peace, resolved to stalk the secret of stability. For this purpose a delegation of eminent minds was assigned to consider and recommend measures that might be employed for "preventing or mitigating economic depressions." Two years later the delegation's work was interrupted by war. When it got back to work in 1943 it found that in this brief interval of five years a great change had taken place "in public opinion on economic questions." The principal elements of change were three, namely:

(a) "The belief that we should think in terms of consumers' needs first and then in terms of our mechanical, scientific, and human power to satisfy those needs;

(b) "The belief that wide differences in the standards of living of different peoples are a menace to social order and international understanding," and,

(c) "The growing sense of world unity."

It found that these beliefs had deeply affected what it called the generally accepted objectives of economic policies, and, moreover, that these same beliefs "must affect the tenor of our reasoning and recommendations." Thus affected in its reasoning by the state of public opinion, the delegation produced the work* that now appears, entitled "Economic Stability in the Postwar World." In the introduction, referring to the sudden change that had taken place in the weather of economic thought, the delegation writes:

"It is our aim to crystallize this consensus of opinion. But, important as this evolution of opinion is, we have to face the fact that governments had not before the present war recognized any definite obligation to maintain a high and stable level of employment. We are forced, therefore, to draw conclusions based rather on the present state of thought and theory on this subject than on practical experience of the successful execution of anti-depression policies. We have no doubt that when these theories are tested in the crucible of history some will require modification, some adaptation to unforeseen conditions, and that some new theories will have to be evolved."

The infirmity of this statement is so unexpected and so shocking that criticism is embarrassed. Here is a distinguished and responsible body of political scientists proposing an economic program for the world. And what is it saying? It says first that its reasoning was controlled by the changes that had taken place during the war in beliefs and opinions

*"Economic Stability in the Postwar World." League of Nations Publication, Columbia University Press.

on economic questions. It says, secondly, that it has been obliged to base its conclusions on a state of thought and theory beyond experience. Thirdly, it says that if the program so evolved does not work some new theory will have to be found.

You might suppose that the design for an experimental economic system would be suggestive only. Not so. This is a blueprint, not a tentative drawing. The conclusions are dogmatic, presented with an air of disembodied wisdom. Let the world take them or leave them, but the alternative is chaos. There is at this point the melancholy reflection that knowledge may not prevail:

"The world has learnt much in recent years about the means by which active economic conditions may be maintained. . . . If we repeat the economic history of the 1930's, it will not be so much because we are in doubt as to the right policies, as because at the time when greatness and vision were called for we failed to measure up. The history of the past generation has been a history largely of temporizing and makeshift expedients. Let us hope that this dark chapter will soon be finally closed.

The right "objectives of economic policy" having been discovered by the fairly simple process of *crystallizing the consensus of public opinion*, all that remains is to consider the means; and there is a choice of means because the techniques of economic control have been perfected and now there are many ways of acting in a scientific manner upon wilful economic man to amend his behavior and improve his condition. By means of monetary and fiscal policy the government may make his savings unprofitable if it thinks he is saving too much and ought to be spending more, or, by the same means, it can stimulate the instinct of thrift if a time comes when it thinks he ought to be spending less upon the satisfaction of his daily wants. Better still, it can cause him to save more or less without his knowing anything about it. By the manipulations of its tax power the government may appeal to his love of profit if the spirit of enterprise seems to be failing in him, or again, if he becomes greedy the hand that giveth may also taketh away. When he withers in a certain way, in a certain place it may fertilize the soil in which he stands with guarantees and subsidies, and if he sickens generally it may restore him with the vitamins of scientific inflation.

But that the government shall act upon him, for his own collective well being, is taken to be inevitable—and this for two reasons. The first reason is expounded in the chapter on public expenditure and fiscal policy, as follows:

"Views on the proper functions of public expenditure and fiscal policy have undergone a remarkable evolution. According to the *laissez-faire* ideal of the neutral or negative role of the state, public expenditure was regarded as wholly unproductive, as a necessary evil, resulting from the need to keep internal order and pro-

vide defense from foreign aggression. This view could be summed up in the famous 'golden maxim' of Jean Baptiste Say, that 'the very best of all plans of finance is to spend little, and the best of all taxes is that which is least in amount.' . . . The view that public revenues and expenditures should be neutral in their effects on the economic structure depended essentially on the premise that government revenues and outlays as a whole should be small. It was consistent with an economic and social structure in which the total revenues and expenditures collected and disbursed by the state did not exceed a minor fraction, say five to ten per cent of the total national income. . . .

"As a result of developments in recent years, fiscal authorities have now to find taxes to yield amounts equivalent to twenty, thirty or an even higher percentage of the national income. In these circumstances it becomes impossible to devise levies which will not profoundly influence costs of production and the volume of private spending. Even taxes on incomes and profits, which have probably the smallest direct effect upon costs, will exert a major influence on decisions to invest, hoard or disinvest when the rate of taxation is high. Likewise it is impossible to ignore the effect of the level of, or the changes in, public expenditure on employment when a large proportion of the real income of the community is provided by the state either in the form of free services, such as education, roads, etc., or in the form of such social services as unemployment insurance, old age pensions and family allowances.

"Given these conditions it becomes practically impossible to achieve budgetary equilibrium on the traditional annual basis without serious accentuation of other existing tendencies toward cyclical instability of business. An adequate revenue system based wholly on taxes with a relatively stable yield in depression as compared with prosperity, for instance taxes on real estate, would be difficult to achieve. Even if it could be achieved, however, it would be likely to exercise a destabilizing influence."

Thus government must grow by what it feeds upon. The more it does, the more for that reason it is obliged to do. As it takes to itself more and more of the national income, there is more and more necessity to control the economic affair lest it be upset or thrown into a state of disequilibrium by the operations of government; and as its control of the economic affair is extended by this necessity its command over the national income must increase.

So much for the first reason.

The second reason why government must act upon economic man is that the end in view makes it inevitable. What is the end in view? Economic stability in the postwar world. That is the end. The reasoning then assumes a beautifully symmetrical form. In order to achieve this stability it will be necessary to abolish economic depressions. To abolish economic depressions the government must adopt a strong anti-depression policy. The first imperative of an anti-depression policy is full employment. The government therefore must accept final and unlimited responsibility for any aggregate of na-

tional expenditure that may be necessary to employ all labor.

You may say the same thing in two other ways. You may say the government must maintain either the aggregate demand for goods or the aggregate demand for labor, on a high plane. What the government really does is to guarantee the national income at an optimum level, predetermined. This a government is able to do because:

" . . . government expenditures may create employment in the same way as private expenditure, and private expenditure itself can be influenced by the level of government expenditure."

It follows that the government may increase the national income in two ways. Since its own spending, like private spending, creates demand and employs labor, it may increase the national income simply by incurring expenditure; in another way it may increase the national income by monetary, fiscal and social policies tending at the same time to stimulate private spending. But in order to pursue either or both of these lines with success the government must have a wage policy, a price policy and a profits policy; as it controls the volume of the national income so also it must be able to control the distribution of capital. Briefly, the powers of government must be enormously extended.

The road will be hard and exciting. The whole machinery of government will be needed to make some of the bad grades, and there may be moments when the view will seem to be upside down, as when, for example, it is realized that one of the stern duties of the director of the budget will be to see that government expenditures *do not decline*. On page 118 there is a kind of travelogue:

"There should be no misunderstanding about the immense complexity and difficulty of this task. But if, as we believe to be the case, governments are prepared to treat the maintenance of a high and stable level of employment as the prime object of policy, many of the difficulties which may have seemed almost insuperable in the past will assume very different proportions.

"The maintenance of a high and stable level of employment implies that public revenue and expenditure are no longer looked upon as end products but as part of the whole mosaic of national income and national expenditure. It implies that the whole machinery of government is adapted to the execution of the two possible lines of policy we have just mentioned. It implies in particular that budget authorities should add to the function of scrutinizing individual items of government expenditure that of determining and helping to maintain the total volume of national expenditure. The execution of this new function will necessitate the collection and analysis of information on a wider scale than has hitherto been regarded as necessary for the formulation of public fiscal policies (more especially information relating to national income and balances of payments). It will necessitate also—what may prove more difficult—a break with the traditional psychological attitude to-

wards fiscal problems. For a purely financial will have to be substituted a broadly economic approach to the budget."

This is a League of Nations document—the latest of a mighty series and possibly the last. The yellow, mimeographed summary that comes with it bears across the top margin these words: "*The key to our future.*"

The life of the League of Nations may be drawing to a close, but this document will witness that to the very end its thinking was, as we say, up to the time. The doctrine it expounds is so new that its language and terms are not yet settled. Planners generally have stopped calling it a planned economy because of a certain popular prejudice against it. The authors of this document prefer to speak of a balanced economy, which is not a name at all; and for *full-employment policy* they have substituted *anti-depression policy*, which is evidence that they, too, know their semantics.

By any name it is a managed economy controlled by something like an economic general staff under the authority of a supreme government, which undertakes as a matter of social policy to guarantee the national income at a high level.

The axis of it all is the purchasing power theory, which comes from Keynes, who derived it from Marx. According to Marx there was a vanishing quantity called surplus value. The disappearance of this quantity was the cause of mass poverty; and the reason why the workers were never able to buy all that they produced was thus explained. What became of that vanishing quantity. Marx supposed that the capitalist got it. Keynes made the startling discovery that it was devoured by an algebraic formula. The result in either case is the same. The workers are unable to buy what they produce. What they lack is purchasing power. It becomes therefore the duty of government to provide people with the purchasing power when and as they need it. The wonderful result is, according to the doctrine, that as the government does this it becomes itself richer and richer. And this the League of Nations thinkers affirm, in a positive manner, saying:

"But the community can equally be made richer by events giving rise to additions to the public debt, as, for instance, if the money borrowed is used to construct new productive equipment or public amenities, or if deflation is thus prevented. Indeed, whenever there is widespread unemployment it is likely to be possible to render the community richer by additions to the public debt. In such circumstances the state, unlike a private individual, automatically increases its income by increasing its expenditure, so long as that expenditure is at home."

If this is true there is no further problem. If it is true, unemployment is in fact a blessing, because

it provides the occasion for the government to enrich both itself and its people by the simple process of increasing the public debt and spending the money.

Why has it never worked? Why did it not work for the New Deal? Supporters of the doctrine have offered many explanations. The one now offered by the League of Nations experts is that it will work only on an international scale. They say:

"Just as we are compelled to choose between the automatism of the gold standard and concerted monetary policy, so we must choose today between economic laissez-faire and concerted anti-depression policy. Nothing could be more dangerous, nor more untrue, than to assume that the maintenance of the fullest possible measure of employment can be left to each government acting in isolated independence."

And again:

"It is in our opinion an obligation of governments both to pursue such policies and to coordinate their policies internationally so that the policy of no country acts to the detriment of others."

And they end with this warning:

"Unless national policies are carried out by common agreement and after joint and continuous consultation there is a danger that they will run counter to each other, that one country will tend to spread depression abroad in order to avoid it at home, and that the world will be divided into a number of autarkic pugnacious national units."

So the document comes to its final conclusion. The solution is international. If the world wants stability it will have to impose upon itself all at once a new economic system. It is a system that never grew and has therefore no history. The only experience with it has been that on a national scale it does not work. Why it has failed in that dimension now is demonstrated by reason. In the national size it cannot work. But if only it can be made big enough to begin with, then it must work. The experts guarantee; and, besides, if they are wrong, they are prepared to think of something else—G. G.

Now a World System of Planned Societies

THE ECONOMIC planners address many books to the dear public, saying that now at last the idea of a planned and managed world is going to be made simple and clear; and having said this they go on to write about the *savings-investment problem*, the *consumption function*, the *purchasing power concept*, the *cost structure parity* or the *divergencies of the cycle behavior*. Do they think the person called the average reader knows what they are talking about? If they do, that must be set down as belonging to the general delusion. The fact is that

they are all writing to one another. It may be that they do this to prove their orthodoxy. Their orthodoxy consists in asserting over and over the following points of doctrine:

I. That control of the economic affair, national and international, must never again be left to the play of what once were called natural forces, for if it is the world will sink in the miseries of unemployment, and wars for that reason will continue;

II. That when people are left free to produce and consume and to exchange their wealth with one another in their own ungoverned way they cannot achieve full prosperity because of certain incorrigible human propensities;

III. That governments therefore must plan and control the economic life—each government to do this for its own people, and then an international authority to do it for the whole world under a series of solemn charters;

IV. That neither the income of a nation nor the income of the world is to be regarded as the sum of the spontaneous activities of people; it is instead a quantity that may be predetermined by national and international policy and then achieved by scientific manipulations of foreign exchange, credit, money and taxation;

V. That the United States is the world's giant problem child. It somehow happens to be in possession of the ultimate power—industrial, monetary and military power—with no clear idea of what to do with it. For its own sake and for the sake of the world it must be persuaded not to exercise it in a selfish manner but to share it with others, and;

VI. That John Maynard Keynes' "General Theory" is the most important book that has appeared in the world since Karl Marx.

What the planning schoolmen have produced in this way is an intellectual curiosity; namely, a dogmatic literature entirely based upon experimental ideas. No such world has ever existed. No such economy has ever existed for long and never at all without involving the suppression of human freedom.

The latest notable addition to this literature is Alvin H. Hansen's book,* entitled, "America's Role in The World Economy." Dr. Hansen is a brilliant among economists, like Lord Keynes, whose luster he reflects. This is only natural, since he is the principal American exponent of the Keynesian thesis. On the jacket of his book he is represented to be one of the architects of a planned economy for this country—and that for a jacket is remarkably true. Perhaps no one else, certainly no other economist, has worked so blithesomely upon the drawing. It is, however, not an original drawing but an adaptation of the British design for a managed economy under

the name of a full-employment policy. Dr. Hansen's continuing contributions are being made in the capacity of economic adviser to the Chairman of the Federal Reserve Board.

The importance of this book lies in the fact that it is an authoritative statement of the larger case for a planned international economy to which the national economy must conform. In the world that he now imagines there is no place for a national economy sovereign in itself. National and international policies act upon one another. International trade, he says, cannot expand as it should, and international agreements cannot succeed, unless every nation concerned pursues a full-employment policy, which means a planned society. Moreover, he thinks that each nation concerned should oblige itself to do this by international agreement. "An international commitment," he says, "by all countries to maintain high levels of domestic employment would contribute greatly to the success and workability of all other international economic agreements."

He notes the fact that many people still think a nation's domestic economic policy is its own sovereign business and ought not to be made subject to any international agreement. But this he believes to be already an obsolete way of thinking, and he goes so far as to propose one supreme "International Trade Authority" to review and mind the behavior of member nations.

The ideas involved in this thought are too many and too complicated to be regarded in a book review. But the thought itself, whether one can grasp its implications or not, illustrates the naive faith of planners in writings and commitments. How simple it sounds. Each nation will enter into an international commitment to maintain employment at high levels and from that will flow undreamed-of international prosperity, which in turn will react magically upon the internal economy of each country that has so obligated itself.

Writings and commitments are nevertheless necessary. It is not as if natural forces were going to go on acting. Natural forces need writing only as a matter of record; but natural forces have had their last chance. "The automatic processes upon which we have relied," says Dr. Hansen, "have been found wanting."

This new planned world is one that is going to be created all at once by formulas and articles of agreement. Take the particular case—that is to say, the case of a nation that subscribes to the writing and signs itself in with what Dr. Hansen calls an international commitment to maintain a high level of domestic employment. What will its undertaking be? To begin with, it must take its bible from Keynes, its social program from Beveridge and its catechism from Hansen. (The Full Employment Act now pending in the United States Senate is the Beveridge social program.) Then the nation that has

*"America's Role in The World Economy," by Alvin H. Hansen. W. W. Norton Company, Inc., New York.

signed itself in must adopt certain measures, essentially as follows:

A. In the domestic sphere the government must see to it that the total demand for labor equals the total supply of labor, thereby maintaining full employment, agreeably to its international commitment. When for any reason the total demand for labor is less than the total number of people seeking jobs, so that there is danger of unemployment, the government itself must create a demand for labor. This the government does—in the words of the Beveridge plan—by incurring expenditure. Simply by incurring expenditure, says Beveridge—and says also the Full Employment Act now pending in the United State Senate—the government can increase the demand for labor to any desired point. This now is the orthodox view of all planners. What it means is that the government undertakes to see that there shall be always in the hands of the people an optimum amount of money, in order that the people as they spend the money may be able to employ one another fully. How the government shall get the money to put into the hands of the people does not immediately matter. The government may borrow it or print it or get it from the rich by taxation. In any case, of course, the government must have final control of the nation's money and credit, and it must employ this control of money and credit, together with the tax power, as instruments of social policy.

B. In the international sphere, a rich nation signing itself in must agree beforehand that poor nations shall become a charge upon the rich nations. This is a matter of special interest to the United States, because the United States is the richest nation of all, and the only one that may, in fact, be called a surplus nation. Here the doctrine that a government must provide its own people with purchasing power when and if people fail to provide enough of it for themselves is raised to the international plane. Poor nations, too, must be provided with purchasing power when and if, by their own unaided exertions, they are unable to provide enough of it for themselves. The theory of it is that a poor nation is to the world economy what an unemployed person is to a national economy. Wanting adequate purchasing power it cannot buy its quota of the goods that are for sale in the markets of the world, which is the same thing as to say that it cannot employ its quota of the world's labor. It follows therefore that when a rich nation does provide a poor nation with purchasing power, by lending it money and credit, the rich nation must do it with the welfare and prosperity of the whole world in view and not for immediate gain—not at all in the narrow and selfish spirit of the world that was governed by the profit motive only and regarded a loan from a rich nation to a poor one as purely a financial transaction.

The rich nation must go even further. It must agree beforehand not to behave as a selfish creditor exacting payment of principal and interest according to the letter of the contract. If the poor debtor nation finds that, in order to return to the rich nation the purchasing power it has borrowed, it will have to suffer deflation and lower its standard of living, then it must be permitted, without dishonor, to default or even to repudiate its debt. Repudiation might take the form of a debasement of its currency, and repudiation in this form would be called by the innocent name of an "orderly adjustment of exchange rates." And the theory of this is that if the debtor nation has to go through a process of internal deflation in order to pay its debt it will thereby upset the equilibrium of the world, whereas, on the other hand, the creditor nation in the long run will profit more by maintaining the equilibrium of the world than by getting its money back from the debtor.

Leaving out the willfulness of people—or supposing that this, too, may be controlled—all that is assumed about a planned world may appear to be based upon statistical analysis. The argument is scientific. It can be stated in algebraic form. And yet, running all the way through it there is one very old thread of superstition. If you pull that one thread the fabric unravels. The superstition is that nearly all economic misery is from something that money does to people. The people are helpless. It is a law of money that controls their economic destinies. Money is cruel. On its altar of solvency it demands offerings of deflation, depression, liquidation, and unemployment; and through these disasters it becomes morally responsible for war.

The one symbol for the enmity of money is the gold standard. In the new planned world the gold standard will become the curative memory of evil. Its power to sting the debtor will be destroyed; only its image will be preserved as a brass serpent. Hitherto, even governments, for all their power, were controlled by money. They had to balance their budgets, no matter how much it might hurt, because money said they should. Hereafter, instead of being controlled by money, governments will control money, having conquered it; and if they control money they are free; they do not have to balance their budgets if to do so is inconvenient or if it will entail inflation or liquidation.

At this point Dr. Hansen says:

"Those who demand as an end and goal in itself a balanced budget cannot in the nature of the case at the same time adhere to the goal of economic stability. From the long-run standpoint it is indeed possible (though not necessarily the best policy) to adopt expenditures and tax measures that will permit a long-run balancing of the budget and at the same time achieve economic stability. But from the standpoint of the fluctuations of the cycle, it is not possible to do so. The supporters of the Fund [the proposed International

Monetary Fund] believe that promotion of economic stability is of the utmost importance and they believe that a flexible fiscal policy is an appropriate and powerful means for promoting economic stability. The Fund does not, therefore, demand that each member balance its budget. Herein lies the nub of the controversy."

Briefly, in this planned world the limiting dictates of sound finance, such as solvency, a balance between income and outgo, the integrity of debt, a fixed value for the money in which debts are paid—all these limitations shall be burst asunder. It will be a debtor's world, not a creditor's world as before; and a world which for all its scientific jargon will be levered by magic—the magic, namely, of cheap money, perpetual inflation and unlimited debt.

One will not say that by such means it would be impossible to bring to pass a vast world boom. The stimulating power of inflation is an historical fact. But booms hitherto have always ended in depression. How will this one end? Or will it go on forever?

This is the forbidden question. It is forbidden because the planners themselves cannot answer it. They have no idea when or how their boom will end. Their system has in it no planetary principle. Their world can move by jet propulsion, even far and very fast, but it cannot revolve. The world of sound finance, with all its pain and misery, did revolve; it might grow to any size and still it was safe because it revolved. Its simple planetary principle was the law of self-liquidation. Credit went forth and did its work and returned to its source with increments of interest because the work it went forth to do was economically sound and self-liquidating, which is merely to say it was profitable work and able for that reason to repay with interest the borrowed money that was employed.

The planners talk a great deal about the mechanisms of control, but they are not mechanics, any more than one who knows how to run an automobile from the dashboard. If ever they glance at the fact that their world has no true mechanical principle they look away. Sir William Beveridge, for example, admits the obvious truth that his Full Employment Policy to which Great Britain is committed will entail a progressive rise in the national debt. For how long can that continue? He himself cannot say, and he is content to report that Lord Keynes has proved by statistical analysis that it could go on for a number of years. Well so. But after a number of years, then what?

Dr. Hansen encounters the same difficulty, only he seems to be less aware of it even than Sir William. This occurs at that point in his book where he has to deal with the world's giant problem child, namely, the United States. He says:

"We are always selling too much in the world markets. This indeed constitutes one of the great world problems.

We are always selling to foreigners more than they are able to pay for. We are unwilling to purchase from foreigners enough to balance our trade. Hence the 'world shortage of dollars.' Unable to obtain payment in dollars, our exporters have time and again accumulated balances in foreign countries that they cannot convert into dollars. To some extent foreigners have made payment by shipping us gold. To some extent they have made payment by selling us bonds that turned sour. We have, in fact, shipped to the outside world in the last quarter century billions of dollars for which we have gotten no adequate return."

And again:

"Now the fact that we are always selling too much to the outside world is a major cause of world disequilibrium and has been for the last quarter century. It is one of the most serious international problems of our times. If we are to have a stable international world, this problem must somehow be solved. We cannot solve it by the old techniques. We need new policies and new international arrangements."

He looks at all the old techniques that have failed. Then he reviews the proposed new solutions, such, among others, as (a) to continue lend-lease after the war, or, (b) that when we sell to the world more than we buy in foreign trade the debt owing to us on that account shall be canceled from time to time, not at the expense of the exporters but at the expense of the government, which will pay the exporters for the goods they have sold abroad and then write it off as a loss on public account. He dismisses these suggestions one by one as either unscientific or politically unfeasible, and the problem itself remains. The problem is how the United States shall deliver its surplus to a world that cannot pay for it without the effect of putting the world terribly into debt and causing it in self-defense to resort to wholesale repudiation, or, if not that, the other effect of bringing about the ruin of Great Britain in foreign trade, because, says Dr. Hansen:

"Britain is, moreover, unable to compete with the United States in just those products in greatest demand as living standards rise—automobiles, radios, phonographs, typewriters, electrical appliances and the like. The technical superiority of the United States, the unfavorable terms of trade in the agricultural and raw-material countries, and the drastic redistribution of international assets combine to create a continued disequilibrium in world trade."

So what is Dr. Hansen's solution? What new technique does he propose?

He says that if the United States wants to increase its exports, as it must do in order to succeed with a full-employment policy, it must make up its mind to export capital on a very large scale at a low rate of interest, which means only that we lend other countries the money with which to buy our goods. Of course. Any Wall Street banker would

think of that solution. In fact, it is about the only thing a Wall Street banker would think of. But the kind of lending Dr. Hansen is thinking about is different.

The weakness, he says, of the kind of lending Wall Street would do is that private banks and private investors can undertake to make only loans that seem sound financially and may be reasonably expected to have a profitable end; whereas, when the government makes loans to other countries, or guarantees them—

“ . . . it can look beyond the direct return to the general effect of the project in question upon the prosperity of their economies as a whole and upon the world economy. Governments, in short, can look to both the direct and indirect effects of any project. The guaranteeing governments can, therefore, afford to take a larger risk than could private financial institutions. This does not mean that they will not be prudent in making their investments. It does mean that governments can support basic development projects upon which other profitable developments rest but which themselves may be relatively unprofitable.

“The governments participating in the International Bank can support basic development projects (such as roads, port facilities, river-valley developments, large-scale agricultural development programs) which in whole or in part are not self-liquidating. The International Bank can afford to assume such risk if the basic projects, taking all their ramifications into account, are productive and profitable from the standpoint of the indirect effect upon the economy of the borrowing country as a whole and more generally upon world prosperity and world trade.”

The effects of foreign lending, Dr. Hansen says, may be very disastrous both politically and economically if the business is left to “automatic forces.” For that reason, and in order also that the loans may be continuous and uninterrupted by the impulsive ways of private investor and private banks, it must be controlled and managed by government, and if it is—

“managed and controlled so as to insure a reasonably stable flow of capital and if the funds are invested in productive projects, we need not take a pessimistic view with respect to the possibility of repayment.”

Does Dr. Hansen think he has solved the problem? All that he does is to postpone it. He says we need not be pessimistic about repayment because the loans will be expected to increase the wealth and the debt-paying power of the borrowing countries. But let the view be optimistic, and the sequel will be all the same. A time will come when from every part of the world money will be flowing back to this one great rich country, and the more it receives back the more it will have to lend again, and so on and on. Does Dr. Hansen think that is a political relationship that can long endure? Or does he, like Lord Keynes and Sir William Beveridge, content himself with thinking that at least it can go on for a number of years?—G. G.

Monkey-gland Economics

EXCEPTING pure despotism, it is customary for a government to offer the public some plea of imperative national necessity for inordinate taxation. As men could not be worse off in anarchy or brute savagery than with a government which strips them to the bone, obviously there is a rational limit to the *proper* expense of government. And even politicians do not quite like to admit that they are making a tax grab solely for their own pockets, or to win the next election. But the validity of the pretext given for government spending always varies by inverse ratio to the unchecked power of government to take what it pleases regardless of injury to the taxpayer. The theory of the Mature Economy is the latest excuse offered in a period of dizzy increase of the political power, of taxes, borrowing and spending.

Mr. Terborgh* undertakes to demolish this theory, though it is no easy task to boil down the economic jargon to a definite meaning, and quite impossible to refute a string of words that mean nothing whatever. What could be extracted from such a phrase as “a society geared to a high peakload of capital goods production”? (The phrase belongs to Dr. Alvin H. Hansen, and he can have it.) A high peakload is a tautology, since the peakload is the highest load; and you just don’t gear to a peakload anyhow; try it. It is nothing but a mixed metaphor. But Mr. Terborgh gives the statement of the theory from its proponent’s verbatim in order to be fair. It may be best to make a briefer résumé in English.

An economy then would be fully “mature” if it ever got to the point beyond which there could be no further increase of productive capital assets. That would mean there would be no further investment of net savings in the economy. This condition must be understood clearly. It does not refer to the savings of an individual who may invest in previously existent capital assets, seasoned securities; but to a possible net surplus of savings in the economy, accumulated when or after there could be no further use for venture capital, because there would be no field for new enterprise at all, no undeveloped territory, inventions, or anything. And before reaching full or absolute “maturity,” the *rate* of increase of total capital assets might be expected to slow down. It is assumed that total capital wouldn’t increase faster and faster or even at a steady rate until it came to a sudden stop instantaneously. Then from the moment it did begin to slow down, of course the rate of entirely new investment, venture capital from savings, must decline commensurately.

But when savings go into venture capital, the

*“The Bogey of Economic Maturity,” by George Terborgh. Machinery & Allied Products Institute, Chicago.

process generally requires new buildings, new machinery and so forth, by which part of such savings invested becomes new income as wages and salaries of workers who do the building or make the machinery. Therefore a declining rate of venture capital investment means a direct decline in jobs, an increasing unemployment with no hope of a future upturn.

To take up the slack of such unemployment, the Mature Economists contend, it is necessary or desirable for the government to grab by taxation that margin of net surplus savings for which no venture capital investment is open, and spend the money. It is also asserted or implied that the American economy is *already* on the down curve toward "maturity"; therefore such savings ought to be expropriated from now on. It is not explained why the citizens couldn't just as well spend their own savings on themselves for consumption goods. They need a lot of stuff right now, including food, clothes, motor cars, houses, and maybe a vacation in the loony bin to think things over. Mr. Terborgh notes these oddities of present application.

But most of Mr. Terborgh's effort is directed toward showing the basic fallacy of the whole theory by facts and logic. Of course there is a catch in it, which dodges all conditions of proof. No economy has ever yet become "mature." In the past many economies have certainly declined to the verge of extinction under government control, taxation, and spending; but never because a *free* economy *could not* have found use for venture capital. Then how is it to be known when a decline would actually indicate imminent "maturity"? There is no way, since previous declines could not show any clue, to match up. The theory therefore by its nature simply cannot fit any facts of previous record. All genuine scientific prediction has to rest on facts of record in the past, the thing which has already happened, in a known sequence. A system of mathematics that came out wrong when applied to yesterday's data couldn't very well be correct in relation to future operations.

The fallacy in the assumption of an investment standstill in the future is that new industrial investment arises from technological progress, discoveries and inventions which, being discoveries and inventions, are by their nature utterly and forever unpredictable. They are precisely the incalculable element in economics. A calculation based on the incalculable goes one better than unscrewing the inscrutable. That factor has always made a monkey of the gloomy forecaster of the total future. There were self-appointed prophets who didn't see how there could be any new capital development after the canals and railroads and steam engine. Mr. Terborgh sums up these premature economists neatly: "Because they cannot see what is coming, they assume that nothing is coming."

But in conclusion Mr. Terborgh turns on himself, by saying that there must be "economic statesmanship, both public and private to create under the altered social, political and economic conditions of today an environment hospitable to enterprise." Might as well point to a slab of concrete and suggest that one must create *under it* an environment hospitable to raising vegetables. It can't be done. The concrete would have to be removed. The social, political and economic conditions at any time are just what constitute the environment of enterprise. They will have to be "altered" back again, to permit enterprise, or else. That can be done, but it means that the necessity must be recognized.

Because of Mr. Terborgh's conclusion, this book presents a tough problem in itself, being an example of a prevailing practice by which relevant facts and rational argument are suddenly brought to a flat non-sequitur. Do not such attempts at an impossible compromise tend to more danger or harm than the errors they set out to combat? History indicates that even clear refutations of foolish theories don't take much effect, being negative. What finally disposes of a fallacy is a positive and correct theory in the same field, provable in application, which simply displaces previous error and leaves it to be forgotten. Fallacies flourish in the absence of exact knowledge; and the processes of production need to be understood thoroughly, on positive axioms and principles.

Mr. Terborgh comments on the rapid spread of the notion of Economic Maturity, and seems to imply that it is altogether new. It isn't. It is a revamped version of the Marxist Communist theory of the relation of industrial capitalism to undeveloped colonial areas and the presumed final exhaustion of the latter. That is why it has got around so fast in the channels of Communist propaganda. It serves the Communist purpose perfectly for the time being.

ISABEL PATERSON.

The Elusive Law of Wages

MR. RUCKER* tackles a tough question, which is the wage factor in a dynamic economy. With a production system arising from the division of labor, there is necessarily a subsequent division of the product. Wages are one part of such division. But how is it or should it be made, in what proportion?

Now here is a paradox of economic history, which Mr. Rucker notes to begin with. In Europe, all kinds of regulations have always been imposed on economic relations, fixing prices, hours, wages, limiting jobs or entry into specific occupations, limiting output and exchanges—every darned thing. Never was there a wholly free market. And the general intention was to make such things what it

*"Labor's Road to Plenty," by Allen W. Rucker. L. C. Page & Company, Boston.

was conceived they *ought* to be. (The just price, the just wage, or whatever.) Meanwhile the workman seldom got more than a bare living, if he could keep out of slavery or serfdom.

Then the United States came into being, with nothing but contract law to cover wages, prices, industry and trade. It was, at last, the Free Market. "Unprotected" American labor was open to exploitation. Exploitation means hiring a man and paying him wages for productive labor. Apparently it is a horrible thing to do. And they did it. A man with a job and a man who wanted work settled it between them. Wages were adjusted by the market, which incidentally had to absorb a large influx of immigrant labor and equate expanding industry with the pull of frontier land, throughout good times and hard times and all sorts of local variables. That meant innumerable changes in wages, sometimes up, sometimes down. Nothing was pegged. Yet American labor presently commanded the highest pay ever known, with an unprecedented standard of living and opportunity to rise from the ranks.

Mr. Rucker suggests that if any constants can be found in this whole process, they must represent scientific laws in industry. And he finds that statistical study does show such constants, by averages, in given periods.

One constant is that, taking the whole output of manufactures, labor gets a fairly constant percentage or ratio of what is called "Value Added by Manufacture." This is so no matter how the total annual income of labor or total of employment or average annual wage varied during the same period. But the total annual income of labor likewise bears a fairly constant ratio to the total volume of goods. So does the average annual wage correspond to the rate of productivity. And the number of jobs, or ratio of employment to unemployment, bears a relation to the ratio of firms making a profit to those making no profit. Finally, industrial payrolls and farm income correspond constantly.

Certainly if these statistical correspondences or relations are so, they cannot be altogether without significance. And they are a study, not of what ought to be, but of what *is*.

Broken down, of course, they are not so simple; inverse ratios also appear. If the prices of farm products are low, relative to the prices of manufactured goods, that means low *volume* of manufactures, though there may be simultaneously high *wage rates*, along with a low *average annual income* for labor, and high unemployment. Labor might be getting a dollar an hour, with wheat at seventy-five cents a bushel, for instance; but in that case there would be heavy unemployment in industry, or those employed would not have many hours employment in the week or year. These interactions cannot all be stated briefly. But Mr. Rucker thinks that any

kind of enforced price fixing, rigid prices—whether imposed by government regulation or unions or whatever—must cause the injurious discrepancy of prices. This seems pretty obviously true.

In brief, Mr. Rucker says labor really *is* paid according to production volume and the rate of productivity, and that apparently it can get neither more nor less, in total or in average. But interference with the Free Market can and does reduce both the volume of production and the rate of productivity; and it can't do anything else. Such interference cannot raise production or the rate of productivity; consequently it cannot increase the total annual wage or the average annual wage. It must decrease them. That also seems pretty demonstrably true. Here we have a statement of what is so in the nature of things, not of what ought to be.

"Labor's road to plenty" then is the Free Market, no political regulation beyond contract law—and perhaps no unions? Mr. Rucker finds that unions do not actually obtain higher wages for labor, taking all the industry which is unionized. (But if unions were suppressed by law, there could be no Free Market either; because the right of contract gives men the right to form unions. This also is so in the nature of things—what is, not what ought to be.) However, Mr. Rucker does not suggest at all that unions should be suppressed. He suggests that labor and management must come to an understanding of the fact, which his statistics indicate, that it is actually *impossible* for either to *benefit* at the *expense* of the other.

Then they could adjust wages to production—by an hourly base rate, and some further distribution "proportionate to productivity." Probably some such arrangement is needed in industry. Mr. Rucker points out that the real use of the hourly wage rate makes it indispensable to fix differentials for work of different value (skilled or unskilled). But taken by itself the hourly wage rate has an element of rigidity in relation to production; and piecework rates alone certainly used to be liable to the speed-up and subsequent piece-rate cutting. It may well be that the introduction of a combined method of wage payment, by which the wage earner could be sure increased production would mean increased pay *for him* (he doesn't care what it is on an average for industry as a whole!), might be an enormous advance in the production system.

But one would like to know, if labor really does, by a natural law of industry, necessarily get a constant ratio of value added, what went wrong in the worst early years of the English industrial revolution? Was the rate of productivity really so low it would not yield a decent living wage or decent hours for labor? Or what other factor came in?

Mr. Rucker's enquiry is rather limited for such a subject. The catch in statistical averages is that

they are necessarily found within a given field; and one must know what *creates* or *constitutes* the field, before one can know if they indicate any law other than the mathematical law that averages can be found in any field. One must know all possible interferences, and whether they are avoidable or controllable. For example, Mr. Rucker thinks that labor and management must understand that their interest is really the same, not opposed interests, and act upon that knowledge by agreement. I think it is true that their interests are the same. But the existence of labor unions may not be caused by the *interest* of labor, but by its physical position as dislocated mass, and that is another question altogether, a factor which would prevent labor acting upon its interest by intelligent volition. It is not in a man's interest to fall out of a window, but he does if he loses his balance just the same. I suggest that the real problem is the absence of political structure at present—without that, there can be no contract law, no free market, and in due course no industry or labor. That is the "field"; the *political* structure.

Then there is another drawback to statistical averages, which is rather hard to explain briefly. If you got the average height of a bunch of school children, the one thing you wouldn't find among those children would be any one child who was actually that height. The "average height" is a height no child

is. Now, Mr. Rucker finds an average ratio of division of value added, an average percentage which goes for wages out of the *total* production. He posits then that this ratio or percentage would serve as a guide for any *one* business to go by, in paying wages. Or perhaps for any one branch of industry—I don't know. But would it? I can't see how. The free market *per se* consists of persons making exchanges, whether of goods, or of wages and labor, each asking the most he can get, and offering the least the other party will take, in competition with other bids. *Average* wages and prices, and fairly even wages and prices in like things, do *result* from that; but it is the competition which makes them. And some firms go broke because they can't meet the market. The possibilities are too complex to follow through all the way, but somehow it strikes me as being less simple than Mr. Rucker makes it, because he takes the *result* of one process—the competitive bidding, asked and offered, process of the free market—and suggests using it to *begin* with, which would initiate a quite different process. Averages are like that.

Haven't some big businesses occasionally run for a while at an actual deficit, a loss, and still pulled through? In that case, it seems to me there are extremely troublesome complications possible with a wage sliding down and down while other firms may be running at a profit. What would the workmen do? It looks like a dissolving view.

ISABEL PATERSON.

The Cumulative Sequel

The leadership of the state in economic affairs which advocates of planned economy want to establish is, as we have seen, necessarily connected with a bewildering mass of governmental interferences of a steadily cumulative nature. The arbitrariness, the mistakes and the inevitable contradictions of such policy will, as daily experience shows, only strengthen the demand for a more rational coordination of the different measures and, therefore, for unified leadership. For this reason planned economy will always tend to develop into dictatorship.—*Gustav Cassel, Swedish economist.*

Rastling with Reality

What would happen if we tried to establish, without any flexibility, a 65-cent minimum wage throughout the nation? Well, we would probably find ourselves faced with a sit-down strike by management in the low-wage industries. They would continue to close down their plants until we let them raise the selling price of their goods. If we did that, it would endanger the price-ceiling program. Consequently we would open the doors to inflation. This we must avoid. The laboring man can never keep up with the soaring prices that would result from relaxation of price control; he would be worse off than before.

In order to achieve fullest possible war production we must of course give management a chance to make good profits. That is just as fair as it is to provide decent standards of living for labor. At the same time it is ab-

solutely necessary to keep living costs down for the nation as a whole.

But as a human being I deeply regret having to take this stand. It seems incredible to me that even in the midst of a war we should acquiesce to such a policy.—*Claude Pepper of Florida, in the United States Senate.*

Painless Liquidation of the Bondholder

The important question is whether the public prefers higher taxes or a high public debt. Perhaps it is not which is preferred but rather which is less distasteful. It must be one or the other and the answer is a political one. Basically, if the taxes used to pay government bond interest could be so assessed as to fall directly on the bondholders, there would be no real burden on the nation, in the sense that there would be no shift of income. If the taxes come from those who hold the bonds, then a purely financial transfer has occurred. On the other hand, if the persons who pay the taxes are not the same ones who receive the interest payments, there will be economic consequence which will vary with the spending habits of the two groups. . . . It is even possible that interest rates on public debt may tend to disappear if there are continued high savings. Those who insist on saving may eventually be willing to pay a premium to be absolutely sure of receiving the principal back at some later date.—*Robert R. Nathan, in "Mobilizing for Abundance."*

Yalta Aftermath

By Isaac Don Levine

Washington, D.C., June 30, 1945

THE ROAD to Berlin, where the Big Three are scheduled to meet soon, is by now a well-beaten track. It is the same road at the end of which Teheran was once written in the roseate colors of a new dawn. Its designer, Franklin Roosevelt, had conceived it as a short cut to enduring world peace. But that magic terminus has been retreating farther and farther the longer we have journeyed towards it.

Roosevelt pocketed the pride of this, the most powerful nation on earth, and went as far as Soviet-dominated Teheran in quest of unity with Moscow, which he deemed indispensable to a lasting peace. Upon his return, he announced that he had laid the basis for common action among the Great Powers. A year later he found it necessary to go one step further and to travel to Yalta, on Soviet territory, to seek that which presumably he had brought back from Teheran. And now his successor, President Truman, is about to take to the same mesmerizing road and go once more across Soviet lines, this time to Berlin, still in quest of that unity which twice before we thought we had achieved.

Roosevelt went to Yalta after a long train of unilateral acts on the part of Moscow had profoundly shaken the harmony proclaimed from Teheran.* Upon his return from Yalta, he told the Congress, the American people, and the world:

"I think the Crimean conference was a successful effort by the three leading nations to find a common ground for peace. It spells—and it ought to spell—the end of the system of unilateral action. . . ."

That was on March 1, 1945. The President hailed the agreement of the Big Three to call an international conference and to proceed with the earliest possible establishment of a world security organization. These decisions of Yalta spelled to Roosevelt "the beginnings of a permanent structure of peace." A little more than four months later that structure of peace was launched at San Francisco. It was dedicated to "respect for the principle of equal rights and self-determination of peoples" and to the abstention "from the threat or use of force against the territorial integrity" of any state.

Cloudy Dawn of Peace

Yet there was a strange and inexplicable urgency in the message delivered by President Truman at the closing of the San Francisco Conference. "You have created a great instrument for peace," he proclaimed. Then he added this emphatic warning: "The world must now use it."

Use it against whom?

The ink on the charter of the United Nations was hardly dry and the new era of peaceful collaboration had not yet officially dawned when an ominous cloud appeared on the already troubled horizons of the battle-scarred Western World. At the very moment he was voicing his injunction, President Truman had in his possession the text of a series of unilateral demands presented by one member of the newly formed world organization, the Soviet Union, to its good neighbor, Turkey.

Thunder on the Left

These demands included the cession to the Soviet Union of the three Transcaucasian districts of Kars, Artvin and Ardahan, which had belonged for about half a century to Czarist Russia, but which are completely devoid of Russian or Slavic inhabitants. Another demand called for territorial concessions on the part of Turkey to the Soviet satellites in the Balkans. And a third asked for bases along the Bosphorus and the Dardanelles for their "common defense" by the Soviet Union and Turkey.

President Truman did not deem it propitious to tell the solemn assembly at San Francisco, consecrated to the settlement of international disputes by peaceful means, that Moscow backed up its demands upon Turkey with large movements of Red Army forces both in the direction of the Dardanelles and in Transcaucasia.

Consider the extraordinary character of the Soviet action. The Soviet Union has a treaty of alliance with Great Britain. Turkey also has a treaty of alliance with Great Britain. All three are bound by the pledges of mutual amity embodied in the San Francisco charter. Yet Stalin chose to take a unilateral step threatening an international crisis of the first magnitude and imperiling world peace by exerting pressure against Turkey, which is pressure against Britain's friendly citadel protecting the Empire's life line to Asia from the Northeast. And it presages greater and further pressure against the entire Middle East as far down as Arabia.

President Truman fully realized the gravity of the situation. Behind his cryptic warning that the world must now use the instrument created at San Francisco there was both moral indignation and determination to invoke the provisions of the new international compact. If unilateral transgressors could not be curbed now, the world body to keep the peace would be doomed from its birth. The United States and Great Britain decided to take a firm stand against the threat to Turkey.

The road to Teheran, Yalta and Berlin has from its very inception witnessed a race between Presi-

*See article on Teheran in *American Affairs* for January, 1945.

dent Roosevelt's pursuit of Soviet cooperation within the framework of a world organization and Stalin's unrelenting efforts to expand, through seizure and aggrandizement, the Soviet realm. While Roosevelt was busy building the peace of tomorrow, Stalin was preying upon his smaller and weaker neighbors in both Europe and Asia, from Finland to Iran.

The Race Between Peace and Power

This race is the pivot of the history of our days. It is a race between direct action and devious policy. For President Roosevelt never directly challenged the unilateral performances of Moscow. Instead he pressed more and more for the creation of international machinery to checkmate such action. However, the more Roosevelt sought to pin Stalin down through the device of a world organization, the more hurried and frequent became Stalin's overt and covert acts of expansion. Through such procedure Stalin had carved out for himself a vast new domain in Europe while the atmosphere of the great democracies reverberated with the song of international cooperation. By the time the Yalta conference convened, even the blind could see that Soviet unilateral action was making a mockery of world cooperation. President Roosevelt had to go to Yalta. He went determined to win the race against Stalin—by bringing into being his world organization for peace.

Now it can be told that although the President of the United States and Prime Minister Churchill traveled to the distant Soviet Union, they were kept waiting for nearly twenty-four hours at Yalta by Stalin, who somehow could not manage to arrive in time from near-by Moscow to receive his guests. This was an unprecedented discourtesy to the President of the United States, whose rank, moreover, took precedence over that of Premier Stalin.

When Stalin reached Yalta, he announced to Roosevelt and Churchill that he would be unable to stay longer than a couple of days or so. It is hardly a secret at this date that Churchill was greatly incensed by this additional insult. So anxious was President Roosevelt, however, to bring home an accord on the projected San Francisco Conference that he merely laughed the matter off.

As the Crimea conference opened, it appeared that the hosts had taken exceptional care to keep the British and American delegations apart in the hours between sessions so as to prevent a free and full exchange of views between them. When the British representatives used some automobiles for an occasional drive, the Americans would be told that no motor cars were available for them, and *vice versa*.

"What price Soviet cooperation now?" was the plain writing on the chilly mat of welcome spread out by Stalin at Yalta. What did President Roosevelt bring with him? The stalemated Dumbarton Oaks draft of a world league to keep the peace. And

what did Stalin hold in his hands? The unchallenged Bolshevization, behind a news blackout, of half a dozen "liberated" Central European countries where Allied military and diplomatic representatives were either barred or functioned as helpless observers.

Stalin knew only too well, through his superb network of agents abroad, that Roosevelt and Churchill had agreed they must at all costs secure his consent to an international conference for the establishment of a world organization. Here, indeed, was a golden opportunity for Stalin, who was dealing with the immediate settlement of boundaries and of destinies of nations. Roosevelt, on the other hand, was collecting pledges and promissory notes against the Great Future. In exchange for virtual Allied recognition of his unilateral acts since Teheran, Stalin would at most have to sign a membership card in an international society dedicated to noble conduct.

When Roosevelt first broached the idea of the San Francisco conference, Stalin did not bother to conceal his contempt. Voicing the view that only the big powers could keep the peace and deprecating the need for any public discussion of the subject, the Soviet leader remarked:

"Surely you don't expect Ecuador or Ethiopia to help you maintain world peace. But if you must have your conference and open debates to satisfy your public opinion, then it's another matter."

Black Sea Bargain

In this setting and against this background it was inevitable that out of Yalta would come a high-sounding document serving as a cover for surrender to Stalin on all substantial issues.

The Soviet leader demanded and obtained the Allies' consent to allow the Red Army alone to take Berlin—an immense prize in prestige for Moscow. Stalin secured the extension of the Soviet area of occupation far and deep to the west in Germany, and regardless of the lines held by his forces at the cessation of hostilities.

Next Stalin exacted the recognition of his Polish puppet régime, thus winning his main objective, a broad highway from Eurasia to Germany, the heart of Europe. Roosevelt's abandonment of the legitimate Polish government in London, the first victim of Nazi aggression in the war, did not come off without a struggle within the American delegation. There were some high-ranking officers whose code did not permit them to cast a small but tested ally into the maw of a great though doubtful associate power. In return for the agreement to organize a new government of national unity around the core of his satellite Lublin Committee, Stalin joined in a pledge to hold free and unfettered elections in Poland. That he could well afford to grant, having had long experience with elections under a one-party system, without a free press, without freedom of assembly

and speech, and under the vigilant supervision of a secret police. Such elections were known to pile up majorities closely approximating that well advertised figure of 99.4%.

As a bonus, Stalin gave Churchill and Roosevelt some bones to throw to their troublesome public opinions back home. First, he joined them in assurances that German military power must be broken so that it could not rise again. Stalin knew too well that the military power of Germany depended upon German economy, and that there could be no real disagreement between Moscow and the Allies on that point. Second, he agreed to give by April 25 a year's notice for the renunciation of the Soviet mutual assistance pact with Japan, in accordance with the expiration date provided in that treaty. He was assured that in the United States the step would be hailed as almost tantamount to a declaration of war against Japan. It is indubitable, in view of the sensational victories scored by American arms against the Mikado's Empire, that Moscow would have automatically made that move. Does it not put the Soviet Government in a strong bargaining position in the Pacific?

Votes and Vetoes

With these preliminaries out of the way, Roosevelt discovered that courting and surrendering to Stalin did not bring him any nearer to victory on what was to him the crucial question of the conference. Although after Dumbarton Oaks Roosevelt had abandoned his dream of a world organization with teeth to keep the peace, he held out for endowing it with some powers to curb aggressors. But Stalin was still reluctant to fall into the "trap" which Roosevelt thought he had laid for the Kremlin fox. Stalin would not budge an inch in his insistence that the big powers on the proposed Security Council have the right to veto any action against them. Not to return home empty handed, Roosevelt had to yield to Stalin once more. The big powers reserved for themselves the right to veto both charges of aggression brought against them as well as any investigation of such charges.

When the authority of the proposed world organization had thus been whittled down to not much more than that of an improvised arbitration board, Stalin brought forth his chief demand. He asked for sixteen votes in the proposed world organization for each of the so-called sixteen republics making up the Soviet Union. The opposition to this proposal in the American delegation was so violent that President Roosevelt suggested that the United States should then receive forty-eight votes for all its component states.

The climax to the tug-of-war which developed on this issue at Yalta, and which was to have unforeseen and shattering consequences, has been kept an innermost secret even though the chief figure of

the conference is no longer among the living and the war in Europe is over. Premier Stalin found an occasion, at the termination of a session, to chat with President Roosevelt when all the other American delegates, with the exception of one, had left the room. The one was Alger Hiss, deputy director of the office of Special Political Affairs in the State Department.

With the aid of the Soviet interpreter, and in the absence of the official American interpreter, Stalin pressed President Roosevelt for consent to the Soviets having three votes at the world organization, one each for the Soviet Union, for the Ukraine, and the White Russian Republic. The President, in the presence of Mr. Hiss, finally yielded, with the proviso that the United States would also ask for three votes at San Francisco.

When the President, upon rejoining the American delegates a little later, broke to them the news of his private understanding with Stalin, the effect was shocking. There were some who remonstrated with the President, fearing the consequences at home. Wearily Roosevelt, who was then a very sick man already, replied:

"I know, I shouldn't have done it. But I was so tired when they got a hold of me. Besides, it won't make much difference."

President Roosevelt was enabled, however, to announce to the world the coming San Francisco conference to launch a world organization. "Our meeting here in the Crimea," read the joint statement of the Big Three, "has reaffirmed our common determination to maintain and strengthen in the peace to come that unity of purpose and of action which has made victory possible and certain for the United Nations in this war."

Yalta, like Teheran, was triumphantly hailed as the symbol of a new harmony with the Soviet Union.

What Yalta Yielded

The aftermath of Yalta came with overpowering swiftness. While most of the opinion makers in the United States were still celebrating the newest era of cooperation so eloquently promised by the Yalta Declaration, and even before President Roosevelt had returned to Washington, a fresh chain of startling developments was unleashed from Moscow. The cook in the Kremlin, who had once been characterized by his master Lenin as capable of serving only peppery dishes, had prepared a series of surprises. During the six weeks which elapsed between the President's return from Yalta and his sudden death, these events followed with the precision of well-calculated blows.

FIRST

On February 27, as soon as Roosevelt stepped on the shores of his homeland, a disagreeable development occurred in "liberated" Rumania where the

Red Army was exclusively in control. Deputy Commissar A. Y. Vyshinsky, who had won his laurels in the Great Purge, unexpectedly arrived that day in Bucharest. The coalition government of General Radescu, a pro-Ally leader, was overthrown the following day. General Radescu found it necessary to flee for his life and seek shelter in the British diplomatic quarters. King Michael made an unsuccessful attempt to entrust the government to Prince Stirbey, who enjoyed Anglo-American confidence. Soon afterward, the Communist leader, Groza, was installed as the head of the new government—in a country where the Communist Party had numbered before the war 2,000 members. Mr. Vyshinsky returned to Moscow.

Now the Yalta Declaration, barely two weeks old, had specifically stated in ringing phrases the “mutual agreement to concert during the temporary period of instability in liberated Europe . . . in assisting the peoples liberated from the domination of Nazi Germany . . . to solve by democratic means their pressing political and economic problems.” The Yalta Declaration reiterated and reaffirmed the joint pledge of the Big Three to consult with each other in the interests of the peoples of liberated Europe and the “sacred obligation” to maintain and strengthen the peace to come.

SECOND

In March Moscow denounced the Russo-Turkish Treaty of nonaggression, to the accompaniment of a campaign by the Soviet radio and press attacking the Turkish Government as pro-Fascist for remaining neutral during the war. Yet, Great Britain and the United States had for years nurtured Turkey's neutrality by supplying her with arms so as to enable her to withstand Nazi pressure. It was clear in Ankara, as well as in London and Washington, that the new Soviet attitude portended trouble on the issue of the control of the Dardanelles as well as in the matter of other Soviet claims.

This was hardly in accord with the month-old Yalta Declaration of the Big Three pledging “continuing and growing cooperation . . . among all the peace-loving nations” and mutual consultation with “other governments in Europe when matters of direct interest to them are under consideration.”

THIRD

President Roosevelt was confronted during the same month of March with a new grave crisis over the Polish problem which had seemingly been settled at Yalta a few weeks earlier. That settlement called for an inter-Allied commission consisting of Foreign Commissar Molotov, United States Ambassador W. Averell Harriman and British Ambassador Sir Clarke Kerr to set up a Polish government of national unity from among “democratic leaders from within Poland and from abroad.” The commission

met in Moscow, but made no headway whatsoever. The Soviet representative again and again discarded every name of a Polish leader suggested by the Allied commissioners for the new government. Molotov interpreted the Yalta agreement as making it mandatory to recognize the Lublin puppet régime with the addition of some hand-picked Polish leaders from abroad.

Although the Soviet stand was justified in barring members of the London government-in-exile from the new government, according to the unfortunate wording of the Yalta Declaration, it could not possibly apply to the heroic chiefs of the Polish underground movement who certainly would qualify as “Democratic leaders within Poland.” Stalin took measures to remove their candidacy as well.

While the inter-Allied commission was discussing various proposals, an invitation reached the heads of the underground forces in Poland on March 11 from Colonel of the Guards Pimenov to meet with the high command of the Red Army. Wrote Colonel Pimenov: “As an officer of the Red Army who had been entrusted with such a highly important mission, I guarantee to you on my word as an officer that . . . after your arrival at our quarters, you will be absolutely safe.”

As a result of an exchange of messages establishing that the Soviet command was acting with the personal knowledge of Stalin, the leaders of the underground revealed themselves and made a date to meet on March 27 General Ivanov of the Soviet high command. On March 25, General Okulicki of the Polish underground radioed to his government in London:

“The Soviets have promised to make it possible for the Government Delegate and two representatives of each of the political parties to consult with you. For this purpose, they are to provide a plane on March 29. It may be that I, too, will be able to come. We have given the Soviets our guarantee that the consultations and the flight to you will be kept secret.”

All the while the governments of the United States and of Great Britain were kept fully and promptly informed of these developments. There were those in Washington and London who hoped for an early and most satisfactory solution of the sore Polish dispute. But the fifteen underground leaders who proceeded to the headquarters of General Ivanov were lost without trace after March 28. Rumors spread that they had been taken east in a motorcade. In Moscow, however, the tripartite commission dealing with the Polish problem heard or saw nothing of them. Churchill and Roosevelt were advised of their disappearance. To all inquiries from London and Washington, the Soviet Government turned a deaf ear and its representatives looked as bland as if they had never heard of the matter. On April 12, the day of President Roosevelt's death, the Moscow correspondent of the Communist *Daily*

Worker in London, John Gibbons, categorically stated in a dispatch that it was "absolutely untrue that the Polish political and military leaders were in Moscow." Here was an international mystery of the first order.

(Weeks later, at San Francisco, Commissar Molotov casually announced at a dinner party for Foreign Secretary Eden and Secretary of State Stettinius that the Polish leaders were under arrest in Moscow and that the guilty ones would be punished. They were subsequently given a show trial and convicted of plotting a British-Polish-German attack against the Soviet Union.)

Having first eliminated by diplomatic means at Yalta the legitimate London government from the proposed new régime of national unity, Stalin now eliminated by other means nearly the entire surviving leadership within Poland. As Foreign Secretary Eden declared at San Francisco, "most of these men were just the type who should, in our view, have been consulted about the new national government in Poland, if such a government was to be truly representative of Polish democratic political life, in accordance with the Crimea decision."

FOURTH

On the very day the fifteen Polish leaders were surreptitiously abducted to Moscow in violation of the safe conduct granted by the Red Army, a bombshell exploded in the lap of President Roosevelt. The deal which he had made with Stalin at Yalta and which he had kept a deep secret, leaked out. It became known that the President had agreed to let the Soviet Union have three votes in the assembly of the world organization, reserving for the United States three votes also. The White House was forced to confirm the existence of this deal on March 29.

Not perhaps since the announcement of the Supreme Court packing proposal was the country so shocked and stirred. An army of newsmen descended upon Secretary of State Stettinius with a catechism of searing questions. Public opinion was aroused not so much over the strange Yalta bargain itself as over the unsavory handling of the matter. The faith of the smaller nations in the United States leadership at San Francisco was put to a severe test. On April 3 President Roosevelt announced that the United States would drop the plan to ask for itself three votes in the assembly of the United Nations. Although this eased the atmosphere considerably, the blow to the moral prestige of Roosevelt's leadership was painful.

FIFTH

At the same time, the Soviet Government presented sudden demands upon the United States and Great Britain that the puppet Lublin govern-

ment be allowed to send a delegation to the San Francisco conference. This was equivalent to a demand that the Moscow-sponsored régime be recognized as the rightful government of Poland. But Washington and London rejected Moscow's proposal. Stalin was highly displeased, and he repeated his demand in more insistent terms. The scene of the gathering world-security meeting began to look more and more ominous.

SIXTH

The final blow came when the preparations for the San Francisco Conference were going on at a feverish pitch. President Roosevelt expected to open it in person within three weeks. The race against Soviet unilateral action which he had run at Teheran and at Yalta, the President was confident, would enter its final lap at the Golden Gate. There Stalin would at last be pinned down to a code of conduct prescribed by all the nations of the world.

And then Moscow announced its delegation to San Francisco. The list did not include Foreign Commissar Molotov or any representative equal in rank or standing to those of the other big powers. This was a flagrant insult, which the smaller nations and the colonial peoples of the world could not fail to read. Whether or not it was intended to wound the pride of President Roosevelt by showing the Soviet contempt for his Messianic scheme, there could be no question that it served notice that the Soviet delegates would pursue the same tactics of sabotage and nullification adopted by them in all the international conferences up to and including Dumbarton Oaks.

Such were the major events since Yalta, which in a short time had filled the cup to overflowing. On April 12, President Roosevelt died.

The Post-Crimean Clean-up

Roosevelt's sudden death was something which Stalin could not have anticipated. Moscow had learned from experience that the hunting is best after conferences such as those of Teheran and Yalta, when the democracies become intoxicated with their Pyrrhic victories. So general was the rejoicing in America after Yalta, that Stalin decided to capitalize on it without delay and to secure the maximum of advantages in his campaign of Soviet aggrandizement.

When President Truman took over, there followed a period of uncertainty in the Soviet attitude towards the United States. On the one hand, Stalin continued his policy of unilateral action. His setting up of a government in Austria, without consulting the Allies; the unleashing of a wave of terror in Bulgaria preparatory to "free elections" which led to the flight of the pro-Allied peasant leader, Dr. G. Dimitrov, to the American legation

where he is still finding sanctuary; the mock trial of the abducted Polish leaders in Moscow on charges of loyalty to their own country and government; Tito's seizure of Trieste and his attempt to force the city and the surrounding littoral into Sovietized Yugoslavia; the Kremlin's demand that the SHAEF (Supreme Headquarters of the American Expeditionary Forces) be dissolved before the Allied troops are permitted to enter Berlin; the steadfast refusal to admit Allied press representatives into nearly a dozen "liberated" countries and areas now occupied by the Red Army; the unilateral publication of the zones in Western Germany claimed by Moscow as set aside for Soviet occupation; the seizure of the Danish Island of Bornholm in the Baltic; the pressure on Iran, where the Soviet forces are in possession of the northern provinces; the deal with Czechoslovakia providing for the cession to the Soviet Union of Carpatho-Ruthenia; the annexation simultaneously of certain Hungarian districts by the Soviet Union; the transfer of large populations from the East to Western Prussia and of ancient Danubian settlements to the Russian steppes; the peremptory series of demands on Turkey; all of these, and many similar Soviet steps, were in clear defiance of the spirit and the letter of the Yalta Agreement.

Changing Winds in Washington

At the same time Stalin proved himself pliable enough to conciliate President Truman now and then. When the latter showed firmness, Stalin put on a show of yielding. He sent Molotov to the San Francisco Conference to appease Truman. And when Molotov arrived in Washington and made his first call on the new President, Stalin quickly learned that a new wind was blowing in the White House.

Commissar Molotov, after the formalities of the introduction, started off brusquely to talk of the help which the United States was expecting from Soviet Russia in the war against Japan. He even went as far as to raise the question of the price which America would be willing to pay for Moscow's aid in the Far East.

President Truman interrupted Commissar Molotov and plainly told him that the United States does not seek and does not want Soviet help in the Pacific struggle, and has shown herself able to take care of Japan alone if need be. Commissar Molotov, taken aback, launched into a long exposition of the subject. President Truman withdrew and left the Secretary of State to listen to Stalin's mouthpiece.

This act of Truman's had upset the preconceived ideas with which Molotov came from Moscow. The results were prompt to follow. At San Francisco, the Soviet delegation was far more amenable and cooperative than before Roosevelt's death.

Another incident also had its sobering effect upon the Kremlin and its emissaries. On April 24, an unscheduled extraordinary conference took place at

the Pentagon Building where President Truman had gone to consult with the nation's top military leaders. There were reports, some of which appeared in reliable journals, that the President came to seek advice as to the Allied ability to back up with force our stand against unilateral Soviet action in Central Europe.

For a moment something approaching panic seized the pro-Soviet circles in Washington. There were even those who expected Truman to purge the administration of its Communist and Sovietist elements. But the latter quickly rallied. A campaign was inaugurated aiming to discredit Truman's leadership on the ground that he was not carrying out Roosevelt's policies.

More "Missions to Moscow"

Then Harry Hopkins and Joseph Davies went on their missions respectively to Moscow and London. Contrary to the general belief, the initiative of this step did not stem from the White House. It came from our pro-Soviet group. Originally it was Mr. Joseph Davies who proposed himself to the President as the man for another mission to Moscow. Was it not necessary to restore that harmony, that idyllic cooperation, which the country believed had been achieved at Teheran and Yalta by President Roosevelt and which was now in danger of being ruptured?

Thus was the road to Berlin being paved. President Truman, however, disappointed Davies by sending Harry Hopkins to Moscow. To appease him, he sent Davies on a simultaneous mission to London.

In Moscow, Hopkins succeeded in putting back on the Roosevelt tracks the train of American foreign policy—at least, for the time being. Hopkins engineered, with the aid of Davies in London, our complete surrender on the Polish question by reversing the Anglo-American stand as to the proportions of Lublin and London Poles to be included in the new government under the provisions of Yalta. We now agreed to give Stalin's puppets four fifths of the posts in the proposed Polish government, and the key posts at that.

Then Hopkins arranged for another meeting of the Big Three, this time in Berlin, which has been made in Soviet Russia the symbol of Soviet unilateral victory over Germany. It was Marshal Zhukov who told the world from the Red Square in Moscow on June 25:

"The Soviet Union played the main, decisive part in the achievement of this historic victory over Germany. For three years the Red Army single-handedly fought the armed forces of Germany and her satellites."

Thus does the President of the United States once more take secondary rank in traveling to meet the Soviet Premier within the Soviet zone of occu-

pation. And this at a time when Stalin no longer has the excuse of having to conduct a war, while the United States is bearing the brunt of the fight against Russia's age-old enemy, Japan.

Where the Road Leads

As President Truman starts on the road to Berlin, will he and his advisors, after the experience of Teheran and Yalta, take the trouble to read what is Stalin's equivalent of "Mein Kampf"? That certain British statesmen might have saved humanity untold suffering had they studied "Mein Kampf" in time is now generally agreed. Stalin's lifetime creed is an open book to be found in his widely published writings. To any one familiar with his orthodox Bolshevist doctrines, there is no Russian riddle or enigma.

To the Western democracies, the supreme principle in international relations is the right of a nation, large or small, to self-determination. Not so to the Soviet State, which recognizes a higher right. Declares Stalin in his standard work, "Marxism and the National and Colonial Question":

"It should be borne in mind that besides the right of nations to self-determination there is also the right of the working class to consolidate its power, and to this latter right the right of self-determination is subordinate. There are occasions when the right of self-determination conflicts with the other, the higher right—the right of a working class that has assumed power to consolidate its power. In such cases—this must be said bluntly—the right to self-determination cannot and must not serve as an obstacle to the exercise by the working class of its right to dictatorship. The former must give way to the latter. That, for instance, was the case in 1920, when in order to defend the power of the working class we were obliged to march on Warsaw."

Between the democratic principle of self-determination and the pre-eminent right of the dictatorship of the proletariat, according to Stalin, there is no common ground. One must give way to the other. In the light of this fundamental Soviet canon, the road to Berlin promises to be a continuation of the road to Teheran and Yalta, with the same destination.

The Myth of the Mixed Economy*

The Ancestry and Outcome of Market Controls

By Ludwig Mises

THE TERM "planning" is mostly used as a synonym for socialism, communism, and authoritarian and totalitarian economic management. Sometimes only the German pattern of socialism—the compulsory economy—is called planning, while the term socialism proper is reserved for the Russian pattern of outright socialization and bureaucratic operation of all plants, shops, and farms. At any rate, planning in this sense means all-round planning by the government and enforcement of these plans by the police power. Planning in this sense means full government control of business; it is the antithesis of free enterprise, private initiative, private ownership of the means of production, the market economy, and the price system. Planning and capitalism are utterly incompatible. Within a system of planning, production is conducted according to the government's orders, not according to the plans of capitalists and entrepreneurs eager to profit by best filling the wants of the consumers.

But the term planning is also used in a second sense. Lord Keynes, Sir William Beveridge, Professor Hansen, and many other eminent men assert that they do not want to substitute totalitarian slavery

for freedom. They declare that they are planning for a free society. They recommend a third system which, as they say, is as far from socialism as it is from capitalism, which as a third solution of the problem of society's economic organization stands midway between the two other systems, and while retaining the advantages of both, avoids the disadvantages inherent in each.

The Original Interventionists

These self-styled progressives are certainly mistaken when they pretend that their proposals are new and unheard of. The idea of this third solution is very old indeed, and the French have long since baptized it with a pertinent name; they call it interventionism. History will link the idea of social security more closely with the memory of Bismarck, whom our fathers did not precisely describe as a liberal, than with the American New Deal and with Sir William Beveridge. All the essential ideas of present-day interventionist progressivism were neatly expounded by the supreme brain-trusters of imperial Germany, the Professors Schmoller and Wagner, who at the same time urged their Kaiser to invade and to conquer the Americas. Far be it from me to condemn any idea only on account of its not being

*From a speech to the American Academy of Political and Social Science, Philadelphia, March 30, 1945.

new. But as the progressives slander all their opponents as old-fashioned, orthodox, and reactionary, it is expedient to observe that it would be more appropriate to speak of the clash of two orthodoxies: the Bismarck orthodoxy *versus* the Jefferson orthodoxy.

Before considering the interventionist system of a mixed economy two points must be clarified.

First: If within a society based on private ownership of the means of production some of these means are owned and operated by the government or by municipalities, this still does not make for a mixed system which would combine socialism and private ownership. As long as only certain individual enterprises are publicly controlled, the characteristics of the market economy determining economic activity remain essentially unimpaired. The publicly owned enterprises, too, as buyers of raw materials, semi-finished goods, and labor, and as sellers of goods and services, must fit into the mechanism of the market economy. They are subject to the law of the market; they have to strive after profits or, at least, to avoid losses. When it is attempted to mitigate or to eliminate this dependence by covering the losses of such enterprises by subsidies out of public funds, the only result is a shifting of this dependence somewhere else. This is because the means for the subsidies have to be raised somewhere. They may be raised by collecting taxes. But the burden of such taxes has its effects on the public, not on the government collecting the tax. It is the market, and not the revenue department, which decides upon whom the tax falls and how it affects production and consumption. The market and its inescapable law are supreme.

Patterns of Socialism

Second: There are two different patterns for the realization of socialism. The one pattern—we may call it the Marxian or Russian pattern—is purely bureaucratic. All economic enterprises are departments of the government just as the administration of the Army and the Navy or the postal system. Every single plant, shop, or farm stands in the same relation to the superior central organization as does a post office to the office of the Postmaster General. The whole nation forms one single labor army with compulsory service; the commander of this army is the chief of state.

The second pattern—we may call it the German system—differs from the first one in that it seemingly and nominally maintains private ownership of the means of production, entrepreneurship, and market exchange. So-called entrepreneurs do the buying and selling, pay the workers, contract debts and pay interest and amortization. But they are no longer entrepreneurs. In Nazi Germany they are called shop managers. The government tells these seeming entrepreneurs what and

how to produce, at what prices and from whom to buy, at which prices and to whom to sell. The government decrees at what wages laborers should work and to whom and under what terms the capitalists should entrust their funds. Market exchanges are but a sham. As all prices, wages and interest rates are fixed by the authority, they are prices, wages, and interest rates in appearance only; in fact they are merely quantitative terms in the authoritarian orders determining each citizen's income, consumption and standard of living. The authority, not the consumers, directs production. The central board of production management is supreme; all citizens are nothing else but civil servants. This is socialism, with the outward appearance of capitalism. Some labels of the capitalistic market economy are retained, but they signify here something entirely different from what they mean in the market economy.

It is necessary to point out this fact to prevent a confusion of socialism with interventionism. The system of hampered market economy or interventionism differs from socialism by the very fact that it is still market economy. The authority seeks to influence the market by the intervention of its coercive power, but it does not want to eliminate the market altogether. It desires that production and consumption should develop along lines different from those prescribed by the unhindered market, and it wants to achieve this aim by injecting into the working of the market orders, commands and prohibitions for whose enforcement the police power and its apparatus of coercion and compulsion stand ready. But these are isolated interventions; their authors assert that they do not plan to combine these measures into a completely integrated system which regulates all prices, wages and interest rates, and which thus places full control of production and consumption in the hands of the authorities.

The Economics of Liberalism

The fundamental principle of those truly liberal economists who are nowadays generally abused as orthodox, reactionaries, and economic royalists, is this: There are no means by which the general standard of living can be raised other than accelerating the increase of capital as compared with population. All that good government can do to improve the material well-being of the masses is to establish and to preserve an institutional setting in which there are no obstacles to the progressive accumulation of new capital and its utilization for the improvement of technical methods of production. The only means to increase a nation's welfare is to increase and to improve the output of products. The only means to raise wage rates permanently for all those eager to earn wages is to raise the productivity of labor by increasing the per head quota of capita

invested and improving the methods of production. Hence the liberals conclude that the economic policy best fitted to serve the interests of all strata of a nation is free trade both in domestic business and in international relations.

The interventionists, on the contrary, believe that government has the power to improve the masses' standard of living partly at the expense of the capitalists and entrepreneurs, partly at no expense at all. They recommend the restriction of profits and the equalization of incomes and fortunes by confiscatory taxation, the lowering of the rate of interest by an easy-money policy of credit expansion and the raising of the workers' standard of living by the enforcement of minimum-wage rates. They advocate lavish government spending. They are, curiously enough, at the same time in favor of low prices for consumers' goods and of high prices for agricultural products.

The liberal economists, that is, those disparaged as orthodox, do not deny that some of these measures can, in the short run, improve the lot of some groups of the population. But, they say, in the long run they must produce effects which, from the point of view of the government and the supporters of its policies, are less desirable than the previous state of affairs they wanted to alter. These measures are, therefore, when judged from the point of view of their own advocates, contrary to their purpose.

Good Intentions and Bad Methods

It is true many people believe that economic policy should not bother at all about long-run consequences. They quote a dictum of Lord Keynes: "In the long run we are all dead." I do not question the truth of this statement; I even consider it as the only correct declaration of the neo-British Cambridge school. But the conclusions drawn from this truism are entirely fallacious. The exact diagnosis of the economic evils of our age is: we have outlived the short-run and we are suffering from the long-run consequences of policies which did not take them into consideration. The interventionists have silenced the warning voices of the economists. But things developed precisely as these much-abused orthodox scholars had predicted. Depression is the aftermath of credit expansion; mass unemployment prolonged year after year is the inevitable effect of attempts to keep wage rates above the level which the unhampered market would have fixed. All those evils which the progressives interpret as evidence of the failure of capitalism are the necessary outcome of allegedly social interference with the market. It is true that many authors who advocated these measures and many statesmen and politicians who executed them were impelled by good intentions and wanted to make people more prosperous. But the means chosen for the attainment of the ends aimed at were inappropriate. However good intentions

may be, they can never render unsuitable means any more suitable.

It must be emphasized that we are discussing means and measures, not ends. The matter at issue is not whether the policies advocated by the self-styled progressives are to be recommended or condemned from any arbitrary preconceived point of view. The essential problem is whether such policies can really attain the ends aimed at.

The market economy is an integrated system of intertwined factors that mutually condition and determine one another. The social apparatus of coercion and compulsion, *i.e.*, the state, certainly has the might to interfere with the market. The government or agencies in which the government, either by legal privilege or by indulgence, has vested the power to apply violent pressure with impunity, are in a position to decree that certain market phenomena are illegal. But such measures do not bring about the results which the interfering power wants to attain. They not only render conditions more unsatisfactory for the interfering authority. They disintegrate the market system altogether; they paralyze its operation; they bring about chaos.

If one considers the working of the market system as unsatisfactory, one must try to substitute another system for it. This is what the socialists aim at. But socialism is not the subject matter of this discussion. I am here discussing interventionism, that is, the various measures designed to improve the operation of the market system, not to abolish it. And what I contend is that such measures must needs bring about results which, from the point of view of their supporters, are more undesirable than the previous state of affairs they wanted to alter.

Marx and Markets

Karl Marx did not believe that government or trade-union interference with the market can attain the beneficial ends expected. Marx and his consistent followers condemned all such measures in their frank language as reformist nonsense, capitalist fraud, and petty-bourgeois idiocy. They called the supporters of such measures reactionaries. Clemenceau was right when he said: "One is always a reactionary in somebody's opinion."

Karl Marx declared that under capitalism all material goods and likewise labor are commodities, and that socialism will abolish the commodity character both of material goods and of labor. The notion, "commodity character," is peculiar to the Marxian doctrine; it was not used before. Its meaning is that goods and labor are negotiated on markets, are sold and bought on the basis of their value. According to Marx the commodity character of labor is implied in the very existence of the wages system. It can disappear only at the "higher stage" of communism as a consequence of the disappearance of the wages system and of payment of wage rates. Marx would

have ridiculed the endeavors to abolish the commodity character of labor by an international treaty and the establishment of an International Labor Office and by national legislation and the allocation of money to various national bureaus. I mention these things only in order to show that the progressives are utterly mistaken in referring to Marx and the doctrine of the commodity character of labor in their fight against the economists they call reactionary.

Markets Make Wages

What these old orthodox economists said was this: A permanent rise in wage rates for all people eager to earn wages is only possible as far as the per-capita quota of capital invested and the productivity of labor increases. It does not benefit the people if minimum wage rates are fixed at a level above that which the unhampered market would have fixed. It does not matter whether this tampering with wage rates is done by government decree or by labor-union pressure and compulsion. In either case the outcome is pernicious to the welfare of a great section of the population.

On an unhampered labor market wage rates are fixed, by the interplay of demand and supply, at a level at which all those eager to work can finally find jobs. On a free labor market unemployment is only temporary and never affects more than a small fraction of the people. There prevails a continuous tendency for unemployment to disappear. But if wage rates are raised by the interference of government or unions above this level, things change. As long as only one part of labor is unionized, the wage rise enforced by the unions does not lead to unemployment, but to an increased supply of labor in those branches of business where there are no efficient unions or no unions at all. The workers who lost their jobs as a consequence of union policy enter the market of the free branches and cause wages to drop in these branches. The corollary of the rise in wages for organized workers is a drop in wages for unorganized workers. But if fixing of wage rates above the potential market level becomes general, workers losing their jobs cannot find employment in other branches. They remain unemployed. Unemployment emerges as a mass phenomenon prolonged year after year.

Such were the teachings of these orthodox economists. Nobody succeeded in refuting them. It was much easier to abuse their authors. Hundreds of treatises, monographs and pamphlets sneered at them and called them names. Novelists, playwrights, politicians, joined the chorus. But truth has its own way. It works and produces effects even if party programs and textbooks refuse to acknowledge it as truth. Events have proved the correctness of the predictions of the orthodox economists. The world faces the tremendous problem of mass unemployment.

It is vain to talk about employment and unemployment without precise reference to a definite rate of wages. The inherent tendency of capitalist evolution is to raise real wage rates steadily. This outcome is the effect of the progressive accumulation of capital by means of which technological methods of production are improved. Whenever the accumulation of additional capital stops, it comes to a standstill. If capital consumption is substituted for an increase of capital available, real wage rates must drop temporarily until the checks to a further increase in capital are removed. The malinvestment, *i.e.*, the squandering of capital that is the most characteristic feature of credit expansion and the orgy of the fictitious boom it produces, the confiscation of profits and fortunes, wars and revolutions, are such checks. It is a sad fact that they temporarily lower the masses' standard of living. But these sad facts cannot be brushed away by wishful thinking. There are no other means to remove them than those recommended by the orthodox economists: a sound money policy, thrift in public expenditures, international cooperation for safeguarding durable peace, economic freedom.

Unemployment and Union Policy

There are well-intentioned men who exhort union leaders to make only moderate use of their powers. But these exhortations are vain because their authors do not realize that the evils they want to avoid are not due to lack of moderation in the wage policies of the unions. They are the necessary outcome of the whole economic philosophy underlying union activities with regard to wage rates. It is not my task to inquire what good effects unions could possibly bring about in other fields, for instance, in education, professional training, and so on. I deal only with their wage policies. The essence of these policies is to prevent the unemployed from finding jobs by underbidding union rates. This policy splits the whole potential labor force into two classes: the employed who earn wages higher than those they would have earned on an unhampered labor market, and the unemployed who do not earn anything at all. In the early Thirties money wage rates in this country dropped less than the cost of living. Hourly real wage rates increased in the midst of a catastrophic spread of unemployment. For many of those employed the depression meant a rise in the standard of living, while the unemployed were victimized. The repetition of such conditions can only be avoided by entirely discarding the idea that union compulsion and coercion can benefit all those eager to work and to earn wages. What is needed is not lame warnings. One must convince the workers that the traditional union policies do not serve the interests of all, but only those of one group. While in individual bargaining the unemployed virtually have a voice, they are excluded in collective bar-

gaining. The union officers do not care about the fate of non-members and especially not about that of beginners eager to enter their industry.

Union rates are fixed at a level at which a considerable part of available manpower remains unemployed. Mass unemployment is not a proof of the failure of capitalism, but the proof of the failure of traditional union methods.

The same considerations apply to the determination of wage rates by government agencies or by arbitration. If the decision of the government or the arbitrator fixes wage rates at the market level, it is superfluous. If it fixes wage rates at a higher level, it produces mass unemployment.

The Spending Panacea

The fashionable panacea suggested, lavish public spending, is no less futile. If the government provides the funds required by taxing the citizens or by borrowing from the public, it abolishes on the one hand as many jobs as it creates on the other. If government spending is financed by borrowing from commercial banks, it means credit expansion and inflation. Then the prices of all commodities and services must rise, whatever the government does to prevent this outcome.

If, in the course of an inflation, the rise in commodity prices exceeds the rise in nominal wage rates, unemployment will drop. But what makes unemployment shrink is precisely the fact that real wage rates are falling. Lord Keynes recommends credit expansion because he believes that the wage earners will acquiesce in this outcome; he believes that "a gradual and automatic lowering of real wage rates as a result of rising prices" would not be so strongly resisted by labor as an attempt to lower money wage rates. It is very unlikely that this will happen. Public opinion is fully aware of the changes in purchasing power and watches with burning interest the movements of the index of commodity prices and of cost of living. The substance of all discussions concerning wage rates is real wage rates, not nominal wage rates. There is no prospect of outsmarting the unions by such tricks.

But even if Lord Keynes' assumption were correct, no good could come from such a deception. Great conflicts of ideas must be solved by straight and frank methods; they cannot be solved by artifices and makeshifts. What is needed is not to throw dust into the eyes of the workers, but to convince them. They themselves must realize that the traditional union methods do not serve their interests. They themselves must abandon of their own accord policies that harm both them and all other people.

What those planning for freedom do not comprehend is that the market with its prices is the steering mechanism of the free enterprise system. Flexibility of commodity prices, wage rates and interest rates is instrumental in adapting production to the chang-

ing conditions and needs of the consumers and in discarding backward technological methods. If these adjustments are not brought about by the interplay of the forces operating on the market, they must be enforced by government orders. This means full government control, the Nazi compulsory economy. There is no middle way. The attempts to keep commodity prices rigid, to raise wage rates and to lower interest rates *ad libitum* only paralyze the system. They create a state of affairs which does not satisfy anybody. They must be either abandoned by a return to freedom of the market, or they must be completed by pure and undisguised socialism.

The inequality of incomes and fortunes is essential in capitalism. The progressives consider profits as objectionable. The very existence of profits is in their eyes a proof that wage rates could be raised without harm to anybody else than idle parasites. They speak of profit without dealing with its corollary, loss. Profit and loss are the instruments by means of which the consumers keep a tight rein on all entrepreneurial activities. A profitable enterprise tends to expand, an unprofitable one tends to shrink. The elimination of profit renders production rigid and abolishes the consumers' sovereignty. This will happen not because the enterprisers are mean and greedy, and lack these monkish virtues of self-sacrifice which the planners ascribe to all other people. In the absence of profits the entrepreneurs would not learn what the wants of the consumers are, and if they were to guess, they would not have the means to adjust and to expand their plants accordingly. Profits and loss withdraw the material factors of production from the hands of the inefficient and convey them into the hands of the more efficient. It is their social function to make a man the more influential in the conduct of business the better he succeeds in producing commodities for which people scramble.

The Rule of Profit and Loss

It is therefore beyond the point to apply to profits the yardstick of personal merit or happiness. Of course, Mr. X would probably be as happy with 10 millions as with 100 millions. From a metaphysical point of view, it is certainly inexplicable why Mr. X should make 2 millions a year, while the Chief Justice and the nation's foremost philosophers and poets make much less. But the question is not about Mr. X, it is about the consumers. Would the consumers be better and more cheaply supplied if the law were to prevent the most efficient entrepreneurs from expanding the sphere of their activities? The answer is clearly in the negative. If the present tax rates had been in effect from the beginning of our century, many who are millionaires today would live under more modest circumstances. But all those new branches of industry which supply the masses with articles unheard-of before would operate, if at

all, on a much smaller scale, and their products would be beyond the reach of the common man.

The market system makes all men in their capacity as producers responsible to the consumers. This dependence is direct with entrepreneurs, capitalists, farmers, and professional men and indirect with people working for salaries and wages. The economic system of the division of labor, in which everybody provides for his own needs by serving other people, cannot operate if there is no factor adjusting the producers' efforts to the wishes of those for whom they produce. If the market is not allowed to steer the whole economic apparatus, the government must do it.

The socialist plans are absolutely wrong and unrealizable. But the socialist writers are at least

clearsighted enough to see that simply to paralyze the market system results in nothing but chaos. When they favor such acts of sabotage and destruction, they do so because they believe that the chaos brought about will pave the way for socialism. But those who pretend that they want to preserve freedom, while they are eager to fix prices, wage rates and interest rates at a level different from that of the market, delude themselves. There is no other alternative to totalitarian slavery than liberty. There is no other planning for freedom and general welfare than to let the market system work. There is no other means to attain full employment, rising real wage rates and a high standard of living for the common man than private initiative and free enterprise.

Deindustrializing Central Europe

Notes on Russian Enterprise and Technological Progress

By John Hubert

THE removal to Russia of industrial installations in the Rumanian oil fields was generally regarded as an isolated incident, due to specific and local reasons, and perhaps connected with the necessity of increasing the production in Russia of vital war material, while the war in Europe was still being waged.

Since that time and for nearly a year, information from Central and Eastern Europe has repeatedly stressed the fact that the Red armies in occupation of some twelve countries are removing to Russia the industrial equipment of many modern factories. This increases the industrial potential of Russia, and in particular its outlying and strategically safe Asiatic regions. Such policy is similar to that practised by the Germans in the early period of the war in Poland, Yugoslavia and Western Russia. It appears that the corollary to the policy of transferring the industrial equipment will be the policy of displacing to Russia specialists and skilled workers, in particular those connected with the production of war weapons.

Recent information, collected in May and June, 1945, leaves little doubt as to the planned and systematic character of this policy.

The beginnings of Soviet deindustrialization of the newly annexed and strategically exposed territories were practically tested in the Baltic countries and in Eastern Poland during the first Soviet occupation in 1939-1941. The industrial establishments of these areas were few and mostly of local character. The Soviet authorities nationalized all privately

owned industry, and for a variety of reasons (war destruction, absence of owners or managers, interruption of transport, exhaustion of available stocks of fuel and raw materials, chaos of Soviet legislation, etc.) most of it had to stop production. The enforced unemployment of workers was taken as a pretext for their deportation to Russia, which needed manpower. Once the workers, or the most skilled, were sent away, there was every reason to remove machinery. In other cases, the machinery was sent away and the workers had to follow it. According to this method, chemical, food-processing and metal-working establishments were transferred to safe regions of Eastern Russia. In Vilna, the Elektrit radio factory, the largest of its kind in Eastern Europe, was moved to Russia lock, stock and barrel, with all its highly trained personnel. Korneichuk, later Ukrainian Foreign Commissar, emphasized that such a policy was highly beneficial for the local population who should be thankful for being transferred to Russia.

The 1939-1941 practice is now being applied by the Russians on a very much larger territory of half of Europe and on a larger scale. So far, only the beginning of a general plan has been initiated. Given time, the entire industrial war potential may be moved from Central and Eastern Europe, including Eastern Germany, to Russia, and in particular to its Siberian and Central-Asiatic areas. Nazi Germany had a plan, which was openly discussed and highly advertised, of concentrating all European heavy industry in Germany proper, thus making production

of war weapons impossible outside Germany and bringing France, Belgium, Czechoslovakia and lesser industrial countries of Europe back to their pre-industrial status. The Nazis never had time and opportunity to materialize this program and were obliged to stop it altogether at its first phase.

It seems more and more certain that the Russians (who in practice apply *in reverse* the famous *cordon sanitaire* in Eastern Europe) are intent to apply *in reverse* to the Communist-controlled half of Europe the German plan of its deindustrialization. It is not difficult to guess that from the Russian point of view, dominated as it is by considerations of military security, it would be imprudent and contrary to all logic to leave intact, and where they are located at present, the highly developed metallurgical, chemical and machine-making industries of Czechoslovakia, Poland, Hungary, Eastern Germany and Eastern Austria, to mention only the larger countries. It would be equally unsafe to leave in these countries their millions of skilled workers and specialists. On the contrary, from the Russian military point of view it is highly desirable to rebuild all these heavy industries in Russian Asia where they would be perfectly safe, while leaving in Central Europe only the less essential or light industries, based upon local raw materials (food processing, timber and paper, cement, ceramic and possibly textiles). In further development, even coal-produced electric energy, oil and natural gas may be produced in Central Europe and transmitted to Russia for industrial application. A natural gas pipe line which used to supply the Lwow region has already been redirected to Kiev. Given time, the nonessential industries of Central Europe may recuperate and even grow under the semi-Communist administration. Their primary function would be to work for the Russian market, thus relieving Russian manpower for essential war factories.

The Vicious Circle

In socialist economy, industry consists of machinery and people who work the machinery. If machinery is taken away, the workers, especially the skilled ones, become unemployed, and in consequence can and, from the view point of Soviet social engineering, should be transferred elsewhere where their services are needed; *i.e.*, to the new addresses of the moved machinery. If skilled workers are deported, or enticed to Russia by promises of better wages and rapid promotion, the machinery becomes idle and should be removed. Both the removal of the industrial equipment and the deportation of industrial workers are being simultaneously resorted to by the Soviet controlling authorities in the Soviet-occupied Central European countries, and the removal of one chain of the complex industrial mechanism in these countries must logically lead to the removal to Russia of another one. In the final result,

an avalanche of deindustrialization becomes unavoidable.

Poland. News from Poland received during the last few months contains many instances of wholesale removal to Russia of modern industrial machinery from the Silesian metallurgical plants and from machine-making and chemical works in Lodz, Poznan and Bielsko. Three hundred modern machine tools were sent eastwards from one Silesian foundry alone, and several others have been stripped of most of their technical equipment, including their machine tools. Robbing underindustrialized Poland of its surviving modern machinery does not stop at its metallurgical and metal-working industry. Modern textile machinery of the largest wool manufacturing center in Poland, Bielsko (partly British-owned) has also been removed and sent to Russia. In Lodz, the local Communist militia joined hands with the workers of a large textile concern in trying to prevent the removal to Russia of its modern machinery. A regular battle ensued against the Soviet troops charged with its removal. Eye witnesses describe how trainloads of Polish machinery leave Poland daily for the East.

Rumania. It is common knowledge that a large part of new drilling and oil extracting machinery was removed to Russia from the Rumanian oil fields at Ploesti, mainly under pretext of the destruction of the oil fields by Anglo-American bombings. Recently the Soviet Home Service said that industrial and farm equipment and other commodities, including equipment for textile factories, for chemical and physical laboratories, dozens of tons of telephone wire and material, thousands of tons of spare parts for motor vehicles, etc., are continuing to arrive from Rumania in the port of Odessa. This equipment is described as "removed from the Soviet Union by the Fascist invaders," but there is no guarantee that this is really the case, since private information from Rumania repeatedly indicates that the return of the looted property to Russia was accomplished many months ago.

Hungary. Private letters which reached America recently, having avoided Russia censorship, consistently speak of the systematic looting of Hungary by the Russian military command. Exactly as in the other Russian occupied countries, the Red Army requisitions not only food, clothing, fuel and raw materials, but also industrial machinery, "which by accident the Germans did not remove," to quote a letter.

Eastern Germany, Austria. In Germany and Austria, the Red Army is at liberty to proceed as it pleases. The dismantling of the existing war plants and their transfer to Russia would be legal. The field of application of such plans is very large. War plants and other industrial establishments of the Berlin, Stettin, Magdeburg and Halle areas, as

well as those of Saxony and Thuringia, represent at least one third of the German industrial wealth. To these, the plants of Vienna and those established during the war in the area of Wiener Neustadt and in Styria will doubtless be added. Industrial transfer to Russia may be applied not only in the temporarily occupied part of Germany, but in the ex-German provinces which have already been *de facto* incorporated in Poland. For example, in Silesia, only coal and zinc mines, which cannot be removed, and small local industrial establishments (windmills, sawmills, distilleries, dairies, etc.) have been taken over by the Polish administration. It may be presumed that innumerable industrial undertakings of the rich would-be Polish Silesia are destined to be transferred to Eastern Russia.

Czechoslovakia. Within a fortnight of Prague's liberation, the Czech radio said: "A considerable part of the aircraft industry was concentrated during the war on our territory . . . to the old aircraft factories, which had an excellent tradition for the quality of work and reached high export figures, new plants were added by switching over various factories to aircraft production. It will not be possible to keep up the aircraft industry to the same extent after the war." The Czech radio did not say that what will be considered "surplus equipment" may be, or already is, being sent eastward. Some time later various Prague speakers cautiously touched upon the subject of an overindustrialization of Czechoslovakia, due to war conditions, which may not be maintained in peacetime. There were rumors that the Czechoslovak Government had approached the Soviet commanders, drawing their attention to the necessity of differentiation between the legitimate war booty of the Red Army and the genuine property of Czechoslovakia and its citizens. These voices are vague enough. Yet they may be but first indications of the proposed stripping of Czechoslovakia of a part of its industrial equipment. The precise news of the present situation in the great Moravian and Czech Silesian (Vitkovice) war plants is not available. Yet it may be feared that the equipment of these plants may begin its migration eastwards, and that the same thing may happen to the great Skoda works in Pilsen, together with the skilled workers, if and as soon as the American occupying forces transfer to the Red Army the city of Pilsen, which is located at the very boundary of the Soviet controlled area of Europe, and therefore exposed from the strategical point of view.

The attitude of the Communist political leaders of Central European countries tends to confirm the supposition that the above described facts constitute a definite policy.

Systematic perusal of recent speeches and utterances of these Communist leaders leads to the conclusion that, while pledging themselves to bring to their countries a brilliant social and economic future,

they are curiously reticent in speaking about their industrial development. This attitude is directly contrary to that of the Russian leaders who see the future of Russia in the further development of her already formidable industries.

Those familiar with the economic and social problems of Central Europe before the war know that since the beginning of the depression all the governments of Central Europe pursued as well as they could the policy of industrialization; millions of young peasants were dreaming that one day they would don factory overalls. Grandiose industrial schemes were planned during the war by all the Central European resistance movements. Why do the Soviet-sponsored governments hesitate to impress their hungry subjects by exploiting the industrial utopia of the future? There obviously are good reasons why these Communist bodies ignore the most potent and seductive industrial vision for their countries. It must be presumed that they have been told in Moscow not to say too much on this subject which may find itself in contradiction with Soviet policy.

Legal and Economic Pretexts

It has been commonly accepted that the Soviet Government is legally entitled to remove to Russia as war booty not only the enemy (German, Austrian, Hungarian, Rumanian and Finnish) war plants but also, to a point, "surplus" war factories built during the war in German-occupied Czechoslovakia, Yugoslavia and Poland. The latter reason is morally less convincing, in particular in Allied Yugoslavia and Poland. These two countries were industrially underdeveloped and suffered millions of casualties and widespread urban destruction during the war; in consequence they are in need of all the machinery in their factories which can be converted to peace production. However, the deindustrialization of the Central European countries by the Red Armies goes much deeper. Many industrial establishments in Central Europe were built by and belonged to the Germans, not to those of the Reich, but to the local German minorities. Industries in Czech Sudetenland, and to a lesser extent in Czech and Polish Silesia and in the Lodz textile area, were owned by local Germans. Since most of them behaved abominably during the war and anyhow will be expelled to Germany, their factories will become a *res nullius*. It is argued that since it was the Red Army which ejected the Germans from all these areas, Soviet Russia is entitled to recompense herself by entering into possession of the alleged German property.

Practical applications of this theory are obvious. In actual practice, the deindustrialization of Central Europe does not stop at this or that kind of German property. It includes removal of machinery from plants and factories which were established genera-

tions ago by the local population or by foreign non-German capital, which have nothing in common with German industrialization and constitute the most important items of the national equipment of the new Red-occupied countries.

Foreign Capital Losses

It is common knowledge that a considerable part of the heavy industries in Central Europe, not excluding Austria and Eastern Germany, was foreign-financed and foreign-owned. British, French, Belgian, Dutch, Swedish and Swiss capital invested heavily in Central Europe. American capital was less involved in these industries but was also present there.* The attitude of various Soviet-sponsored governments of Central Europe towards the foreign-owned investments can at best be described so far as very doubtful. If there is any logic in the Russian policy of isolating Central and Eastern Europe from the outside world, no foreign owner or creditor will be allowed to interfere with or even show much interest in the running of his property in these countries. The only practical but highly problematic question to be resolved in this respect seems to be some financial reparations in kind for the owners' losses.

The Russian activity in deindustrializing Russian-occupied Europe is a logical consequence of the specific Russian security policy and a vital component of Russian military preparation. If Russia has, as it appears, a general plan of transferring essential Central European industries, including their multinational skilled workers, to places where they would be safe from invasion and would serve only Russia and her military policies, considering the scope and the variety of Central European heavy and machine-making industries, the skill and comparatively high degree of civilization and technical knowledge of the working population of that large region, their gradual physical transfer into Russia may in time double the Russian industrial war potential. It would be naive to suppose that any development of the present international situation, any United Nations conferences and Big Three meetings will divert Russia from the execution of such a plan.

The rate of the switching of Central European heavy industries eastwards depends on several factors. Russia will only relatively be influenced by

*An Associated Press dispatch from Berlin, dated July 7, quotes Arthur E. Dunning, of Bath, Me., secretary of the American Chamber of Commerce in Germany, as saying that concerns owned by American interests had been stripped of their machinery during Russian occupation of the German areas in which the plants were situated.

"National Cash Register, Frigidaire, Ford, Opel (owned by General Motors), Hollerith (owned by International Business Machines) Singer, Mix & Genest, and Woolworth, have been raided," Mr. Dunning said. "In many cases delicate precision instruments were involved which are now lying around in Berlin railway stations awaiting shipment. Some of these needed to be kept at a certain even temperature which, of course, was impossible if they lie exposed outdoors. Much of this machinery, in my opinion, is now junk."—*Editor*

considerations of international policy in the sense of her relationship with the other Big Powers. If the international situation should develop further along the lines of the appeasement of Russia, she may slow down the rate of the operations described above. *Vice versa*, if Russia has doubts about the behavior of her big partners she will increase that tempo, whatever its local consequences. The transfer of machinery and workers eastwards will proceed with all the haste which the political and social situation in the countries which are to be victims of this policy will permit.

This is one of the reasons why Moscow insists on the absolute police control of the countries concerned and on the absolute reliability and subservience of their governments. Russia must be in the position to crush at once any symptoms of an organized dissatisfaction of the population. Secrecy and isolation of the Red-occupied area from the outside world, which are necessary prerequisites for the political terror exercised there, are no less essential for the policy of deindustrialization. The diplomatic representatives, if admitted to that area, may be expected, for the sake of lasting collaboration with Russia, to keep their observations for their governments alone. The representatives of the free press, on the contrary, would be highly unwelcome.

Explanations

Sooner or later the truth will emerge and world public opinion, or at least parts of it, may react unfavorably to the robbing of many European countries of their limited industrial resources. One may foresee the Soviet arguments aiming to justify these measures. From the Marxist point of view it will not be difficult to argue that the transfer of the Central European industries to Soviet Asia, with its empty spaces and unlimited agricultural and mining resources, will be "scientific" and beneficial to everyone concerned. Interesting historical analogies in building up the United States, Canada, South Africa and South America will be invoked and quoted. The voluntary base of former migrations to underdeveloped overseas areas will of course be ignored. A good many people attracted by vast "global" schemes will be convinced. It will be difficult, however, to hide the bare fact: the looting on a grandiose scale of the Central European industrial wealth and the enormous increase of the Russian war potential which will result.

The Reluctant "Even"

I am no more willing than you seem to be that there should be any legal action that would raise the question of title to other than petroleum-bearing lands and which would, therefore, be disturbing to state, municipal, or even to private interests. *Secretary Ickes, in dropping suit to establish federal title to California oil-bearing tidelands.*

What Price a Planned Economy?

By Friedrich A. Hayek*

THE LINK between classical liberalism and present-day Socialism—often still misnamed liberalism—is undoubtedly the belief that the consummation of individual freedom requires relief from the most pressing economic cares. If this seems attainable only at the price of restricting freedom in economic activity, then that price must be paid; and it may be conceded that most of those who want to restrict private initiative in economic life do so in the hope of creating more freedom in spheres which they value higher. So successfully has the Socialist ideal of freedom—social, economic and political been preached that the old cry of the opponents that Socialism means slavery has been completely silenced. Probably the great majority of the Socialist intellectuals regard themselves as the true upholders of the great tradition of intellectual and cultural liberty against that threatening monster—the authoritarian Leviathan.

Yet here and there, in the writings of some of the more independent minds of our time who have generally welcomed the universal trend toward collectivism, a note of disquiet can be discerned. The question has forced itself upon them whether some of the shocking developments of the past decades may not be the necessary outcome of the tendencies which they had themselves favored. There are some elements in the present situation which strongly suggest that this may be so, such as the intellectual past of the authoritarian leaders, and the fact that many of the more advanced Socialists openly admit that the attainment of their ends is not possible without a thorough curtailment of individual liberty.

We see that the similarity between many of the most characteristic features of the "Fascist" and the "Communist" régimes becomes steadily more obvious. Nor is it an accident that in the Fascist states a Socialist is often regarded as a potential recruit, while the liberal of the old school is recognized as the arch-enemy. And, above all, the effects of the gradual advance toward collectivism in the countries which still cherish the tradition of liberty in social and political institutions provide ample food for thought. Any one who has had an opportunity to watch at close range the intellectual evolution of the peoples who eventually succumbed to authoritarianism cannot fail to observe a very similar chain of

cause and effect in a much less advanced state proceeding in the countries which are yet free.

Can we be certain that we know exactly where the danger to liberty lies? Was the rise of the Fascist régimes really simply an intellectual reaction fomented by those whose privileges were abolished by social progress? Of course the direction of affairs in those countries has been taken out of the hands of the working classes and has been placed in those of a more efficient oligarchy. But have the new rulers not taken over the fundamental ideas and methods and simply turned them to their own ends?

It is astounding that these fateful possibilities which suggest themselves have not yet received more attention. If the suspicion of such a connection should prove correct, it would mean that we are witnessing one of the great tragedies in human history: more and more people being driven by their indignation about the suppression of political and intellectual freedom in some countries to join the forces which make its ultimate suppression inevitable. It would mean that many of the most active and sincere advocates of intellectual freedom are in effect its worst enemies and far more dangerous than its avowed opponents, because they enlist the support of those who would recoil in horror if they understood the ultimate consequences.

II

An attempt will be made here to show why this connection, which experience suggests, must be regarded as of a necessary character—as dictated by the inherent logic of things. The main point is very simple. It is that the central economic planning which is regarded as necessary to organize economic activity on more rational and efficient lines, presupposes a much more complete agreement on the relative importance of the different ends than actually exists. Therefore, in order to be able to plan, the planning authority must impose upon the people that detailed code of values which is lacking. And imposing here means more than merely reading such a detailed code of values into the vague general formulæ on which alone the people are able to agree. The people must be made to believe in this particular code of values, since the success or failure of the planning authority will in two different ways depend on whether it succeeds in creating that belief. On the one hand, it will only secure the necessary enthusiastic support if the people believe in the ends which the plan serves; and on the other hand, the outcome will only be regarded as suc-

*This article, reprinted from the *Contemporary Review of London*, for April, 1933, is one of the earliest and clearest expositions of the implications of state economic controls by the author of "The Road to Serfdom," the best-seller which American Affairs brought to the attention of American readers after its publication in England.

cessful if the ends served are generally regarded as the right ones.

A fuller exposition must begin with the problems which arise when a democracy begins to plan. Planning must be understood here in the wide sense of any deliberate attempt at central direction of economic activity which goes beyond mere general rules that apply equally to all persons, and which tells different people individually what to do and what not to do. The demand for such planning arises because people are promised a greater measure of welfare if industry is consciously organized on rational lines and because it seems obvious that those particular ends which each individual most desires can be achieved by means of planning. But the agreement about the ends of planning is, in the first instance, necessarily confined to some blanket formula like the general welfare, greater equality or justice, etc.

Agreement on such a general formula is, however, not sufficient to determine a concrete plan, even if we take all the technical means as given. Planning always involves a sacrifice of some ends in favor of others, a balancing of costs and results, and this presupposes a complete ranging of the different ends in the order of their importance. To agree on a particular plan requires much more than agreement on some general ethical rule; it requires much more than general adherence to any of the ethical codes which have ever existed; it requires that sort of complete quantitative scale of values which manifests itself in the actual decisions of every individual but on which, in an individualist society, agreement is neither necessary nor present.

This fact—that a measure of agreement which does not exist is required in order to translate the apparent agreement on the desirability to plan into concrete action—has two important consequences. In the first instance it is responsible for the conspicuous inability of democratic assemblies to carry out what is apparently the expressed will of the people, because it is only when it comes to translate the vague instructions into action that the lack of real agreement manifests itself. Hence the growing dissatisfaction with the ‘talking shops’ which fail to carry out what to the man in the street seems a clear mandate.

III

The second effect of the same cause, which appears wherever a democracy attempts to plan, is the general recognition that if efficient planning is to be done in a particular field, the direction of affairs must be “taken out of politics” and placed in the hands of independent, autonomous bodies. This is usually justified by the technical character of the decisions to be made, for which the members of a democratic assembly are not qualified. But this excuse does not go to the root of the matter. Altera-

tions in the structure of the civil law are no less technical and no more difficult to appreciate in all their implications; yet nobody would seriously suggest that legislation should here be delegated to a body of experts. The fact is, that such legislation will be carried no further than is permitted by true agreement between a majority. But in the direction of economic activity, say of transport, or industrial planning, the interests to be reconciled are so divergent that no true agreement on a single plan could be reached in a democratic assembly. Hence, in order to be able to extend action beyond the questions on which agreement exists, the decisions are reserved to a few representatives of the most powerful “interests.”

But this expedient is not effective enough to placate the dissatisfaction which the impotence of the democracy must create among all friends of extensive planning. The delegation of special decisions to many independent bodies presents in itself a new obstacle to proper coördination of State action in different fields. The legislature is naturally reluctant to delegate decisions on really vital questions. And the agreement that planning is necessary, together with the inability to agree on a particular plan, must tend to strengthen the demand that the government, or some single person, should be given power to act on their own responsibility. It becomes more and more the accepted belief that if one wants to get things done, the responsible director of affairs must be freed from the fetters of democratic procedure.

Democratic government has fallen into discredit because it has been burdened with tasks for which it is not suited. Here is a fact of the greatest importance which has not yet received adequate recognition. Yet the fundamental position is simply that the probability of agreement of a substantial portion of the population upon a particular course of action decreases as the scope of State activity expands. There are certain functions of the State on the exercise of which there will be practical unanimity. There will be others on which there will be agreement among a substantial majority. And so on until we come to fields where, although every individual might wish the government to intervene in some direction, there will be almost as many views about how the government should act as there are different persons.

Democratic government worked successfully so long as, by a widely accepted creed, the functions of the State were limited to fields where real agreement among a majority could be achieved. The price we have to pay for a democratic system is the restriction of State action to those fields where agreement can be obtained; and it is the great merit of a liberal society that it reduces the necessity of agreement to a minimum compatible with the diversity of individual opinions which will exist in a free

society. It is often said that democracy will not tolerate capitalism. But if here "capitalism" means a competitive society based on free disposal over private property, the much more important fact is that only capitalism makes democracy possible. And if a democratic people comes under the sway of an anti-capitalistic creed, this means that democracy will inevitably destroy itself.

IV

But if democracy had to abdicate only from the control of economic life, this might still be regarded as a minor evil compared with the advantages expected from planning. Indeed, many of the advocates of planning fully realize—and have resigned themselves to the fact—that if planning is to be effective, democracy in the economic sphere has to go by the board. But it is a fatal delusion to believe that authoritarian government can be confined to economic matters. The tragic fact is that dictatorial direction cannot remain confined to economic matters but is bound to expand and to become "totalitarian" in the strict sense of the word. The economic dictator will soon find himself forced, even against his wishes, to assume dictatorship over the whole of the political and cultural life of the people. We have already seen that the planner must not only impose a concrete and detailed scale of values upon the vague and general instructions given by popular clamor, but must also, if he wants to act at all, make the people believe that this imposed code of values is the right one. He is forced to create that unity of purpose which—apart from national crises like war—is absent in a free society. Even more, if he is to be allowed to carry out the plan which he thinks to be the right one, he must retain the popular support, that is, he must at all costs appear successful.

The decision on the relative importance of conflicting aims is necessarily a decision about the relative merits of different groups and individuals. Planning becomes necessarily a planning in favor of some and against others. The problem here is, of course, not that the different people concerned have not the most decided opinions on the relative merits of their respective wishes; it is rather that these opinions are irreconcilable. But the ground on which the more or less arbitrary decision of the authority rests must be made to appear just, to be based on some ultimate ideal in which everybody is supposed to believe. The inevitable distinction between persons must be made a distinction of rank, most conveniently and naturally based on the degree to which people share and loyally support the creed of the ruler. And it further clarifies the position if to the aristocracy of creed at one end of the scale there corresponds a class of outcasts at the other, whose interests can in all cases be sacrificed to those of the privileged class.

But conformity to the ruling ideas cannot be regarded as a special merit, although those who excel by their devotion to the creed will be rewarded. It must be exacted from everybody. Every doubt in the rightness of the ends aimed at or the methods adopted is apt to diminish loyalty and enthusiasm and must therefore be treated as sabotage. The creation and enforcement of the common creed and of the belief in the supreme wisdom of the ruler becomes an indispensable instrument for the success of the planned system. The ruthless use of all potential instruments of propaganda and the suppression of every expression of dissent is not an accidental accompaniment of a centrally directed system—it is an essential part of it.

Nor can moral coercion be confined to the acceptance of the ethical code underlying the whole plan. It is in the nature of things that many parts of this code, many parts of the scale of values underlying the plan, can never be explicitly stated. They exist only implicitly in the plan. But this means that every part of the plan, in fact, every action of the government or its agencies, becomes sacrosanct and exempt from criticism.

V

It is, however, only the expression of criticism that can be forcibly suppressed. But doubts that are never uttered and hesitation that is never voiced have equally insidious effects, even if they dwell only in the minds of the people. Everything which might induce discontent must therefore be kept from them. The basis for comparison with conditions elsewhere, the knowledge of possible alternatives to the course taken, information which might suggest failure on the part of the government to live up to its promises or to take advantage of opportunities to improve the lot of the people—all these must be suppressed. Indeed, there is no subject that has not some possible bearing on the estimation in which the government will be held. There is consequently no field where the systematic control of information will not be practiced. That the government which claims to plan economic life soon asserts its totalitarian character is no accident—it can do nothing less if it wants to remain true to the intention of planning. Economic life is not a sector of human life which can be separated from the rest; it is the administration of the means for all our different ends. Whoever takes charge of these means must determine which ends shall be served; which values are to be rated higher and which lower—in short, what men should believe and strive for. And man himself becomes little more than a means for the realization of the ideals which may guide the dictator.

It is to be feared that to a great many of our contemporaries this picture, even should they recognize it as true, has lost most of the terror which it

would have inspired in our fathers. There were, of course, always many to whom intellectual coercion was only objectionable if it was exercised by others, and who regarded it as beneficial if it was exercised for ends of which they approved. How many of the exiled intellectuals from the authoritarian countries would be only too ready to apply the intellectual coercion which they condemn in their opponents in order to make the people believe in their own ideals—incidentally another illustration for the close kinship of the fundamental principles of Fascism and Communism!

But although the liberal age was probably freer from intellectual coercion than any other, the desire to force upon people a creed which is regarded as salutary for them is not a new phenomenon. What is new is the attempt to justify it on the part of the Socialist intellectuals of our time. There is no real freedom of thought in a capitalist society, so it is said, because the opinions and tastes of the masses are inevitably shaped by propaganda, by advertising, by the example of the upper classes and by other environmental factors which relentlessly force the thinking of the people into well-worn grooves. But if, the argument proceeds, the ideals and tastes of the great majority are formed by environmental factors which are under human control, we might as well use this power to turn their thoughts in what we think a desirable direction. That is, from the fact that the great majority have not learned to think independently but accept the ideas which they find ready-made, the conclusion is drawn that a particular group of people—of course, those who advocate this—are justified in assuming to themselves the exclusive power to determine what the people should believe.

VI

It is not my intention to deny that for the great majority of individuals the existence or nonexistence of intellectual freedom makes little difference to their personal happiness; nor to deny that they will be equally happy if born or coaxed into one set of beliefs rather than another, and whether they have grown accustomed to one kind of amusement or another. That in any society it will be only the comparatively few for whom freedom of thought is of any significance or exists in any real sense is probably only too true. But to deprecate the value of intellectual freedom because it will never give everybody the same opportunity of independent thought is completely to miss the reasons which give intellectual freedom its value. What is essential to make it serve its function as the prime mover of intellectual progress is not that everybody may think or write everything, but that any cause or any idea may be argued by somebody. So long as dissent is not actually prevented, there will always be some who will query the ideas ruling their con-

temporaries and put new ideas to the test of argument and propaganda. The social process which we call human reason and which consists of the interaction of individuals possessing different information and different views, sometimes consistent and sometimes conflicting, goes on. Once given the possibility of dissent there will be dissenters, however small the proportion of people who are capable of independent thought. Only the imposition of an official doctrine which must be accepted and which nobody dare question can stop intellectual progress.

How completely the imposition of a comprehensive authoritarian creed stifles all spirit of independent inquiry; how it destroys the sense for any other meaning of truth than that of conformity with the official doctrine; how differences of opinion in every branch of knowledge become political issues—these must be seen in one of the totalitarian countries to be appreciated. We must hope that those in the Western world who seem to be ready to sacrifice intellectual freedom because it does not mean the same economic opportunity for all will yet realize what is at stake. The great danger comes from the fact that we take so much of the inheritance of the liberal age for granted—have come to regard it as the inalienable property of our civilization—that we cannot fully conceive what it would mean if we lost it. Yet freedom and democracy are not free gifts which will remain with us if we only wish. The time seems to have come when it is once again necessary to become fully conscious of the conditions which make them possible, and to defend these conditions even if they seem to block the path to the achievement of other ideals.

Simplifying the Polish Question

Up in Jamestown, N. Y., a draftsman tells me that his plant has been completely reconverted and retooled. Instead of bazookas they now make ballot-meters commonly known as voting machines. These vote tabulators, he says, were ordered by Soviet Russia for distribution in Warsaw, Lublin and other cities and towns in New Poland. Gus Ripley, the draftsman (of course that's not his real moniker), says, those Russian engineers who are working with him are the last word in industrial designing. They have slicked and streamlined the conventional, cumbersome voting machine used in cities all over the United States, including Hudson County. Instead of the regulation 10 or 12 banks of levers they have clipped it down to a single row. More than that, they've engineered that single line of levers down to just one lovely, lonesome lever.

What puzzles Gus is that short, strange word the Russians ordered stenciled over that solitary lever. The word is DA. One more da, says Gus, will make it da, da. Now he is wondering. Is he designing a tinker-toy, a dadaistic cash register or a vote tabulator? With that one lever gadget Stalin's election clerks will have little to do after the the Polls are bolted (no pun intended).

—Ben Blaker in *The New Leader*.

Notable Excerpts

Too Much Security*

By Senator Joseph H. Ball of Minnesota

IT IS significant that in the Declaration of Independence there is no mention of economic security. Unquestionably, its authors knew that economic security is sought by every individual. But I believe they also recognized that complete economic security is to a large degree incompatible with freedom for the individual and that is why they did not emphasize it, either in the Declaration or in our Constitution. . . .

As we seek a solution to our domestic problems in the years ahead, our emphasis should be on measures and policies which will strengthen the individual and free his mind from fear by giving him knowledge, training, and health. The highest freedom of all for the individual is freedom from fear, the confidence that he can and will measure up to any test that may come and remain true to his own inner creed. . . .

I think one of our dangers as we try to meet and solve these problems is that there will be too much emphasis on achieving economic security for masses of people at the expense of freedom for the individual. Some of us tend to confuse economic security with freedom. Actually, the most secure individual in our society is the prisoner in a penitentiary serving a life sentence, but he is hardly free. The people of Germany in the first years of the 1930's were so intent on achieving economic security that they permitted their freedom to be liquidated without even a fight.

The easiest and perhaps the most logical way to achieve economic security for all would be for the government to take over and operate all of our economic institutions. But certainly at this stage of human and political development such a course inevitably would mean the liquidation of individual freedoms. The great contribution which the capitalistic system and private enterprise make to freedom is that they offer the individual a choice of many thousands of different ways of making a livelihood with many thousands of potential employers. . . .

The role of social security in our system is important, but should be kept subordinate to our primary goal of preserving the freedoms of the individual. The role of social security, as I see it, is to adequately take care of the inevitable casualties in a competitive private enterprise economy, but not to furnish a high guaranteed standard of living to everyone regardless of the effort made by the individual.

Just as government has had to step in and protect individual rights and opportunities against great concentrations of economic power in management of industry, so, I believe, government must step in and protect individuals against the concentration of economic power in great unions. It is no more right for leaders of a union arbitrarily to deprive an individual of the opportunity to work than it is right for an employer to do so, but it is being done, as we all know. The tendency in some unions to impose artificial restraints on production and to trample roughshod over minorities in their own ranks

*From a speech at a Freedom House dinner.

must be checked. It is destructive of individual freedom. To a large degree, union members as they become trained in the rights and responsibilities of union organization will do that job, but government must stand ready to help.

Government cannot afford, if we really intend to preserve freedoms of the individual, to tolerate a monopoly on opportunities by either union or industry. When and if either one occurs, government would have to take over both the management of industry and the control of unions, an eventuality which I know both groups want to avoid. . . .

There is a great danger that in striving for economic security, particularly through government, but to a lesser degree in the policies of industry and great labor unions, we finally achieve security for all at the expense of freedom for the individual. In other words we leave little or no opportunity for leadership, we leave no chance for the nonconformist, whether he be a crackpot or a genius. To make our democratic system work, we must have leadership—men and women who are willing to fight and risk all for new ideas and ideals. In industry, it is the nonconformist looking for a better way to do things who has contributed most to our progress. If the time ever comes when leadership, men and women who differ from the mass and have new ideas, have no alternative but conformance or starvation, then we will have lost our freedoms.

The Exercise of Democracy*

Reflections on the Hygiene of Government

By Hatton W. Summers, Chairman of the Judiciary Committee of the House of Representatives

NOTWITHSTANDING the physical scars which this war will leave on the surface of the earth and upon the bodies of people, the earth will still be here. But the question will be whether or not the problems of government which will follow this war will be greater than the capacity of democratic government to deal with.

A great many people are insisting that they will be greater than the capacity of democratic government. As a matter of fact, there are many people in this country who have lost faith in democratic governments. Some do not want it. There is tremendous confusion about the whole matter. I am one of those who feel absolutely certain that we in America at least can continue to operate and successfully deal with our problems through the machinery of democratic government. But I am certain that, in order for that to be possible, we must understand the nature of democratic government and must recognize that government is not the one hiatus in all nature where natural laws do not limit human discretion and determine sound policy. We must discover those natural laws and bring governmental policy into harmony with them.

When I was a country boy living on my father's farm over here in Lincoln County I heard him say one day that "there is no result without corresponding antecedent, adequate cause." I had him explain what he meant. As soon

*From a commencement address at Southwestern College.

as I got the explanation I began to make an examination in the fields and the woods. I found his statement to be true. That discovery opened a great big door into a great big world. On our farm I discovered convincing evidence of design and system and execution; a great intelligence, a great power; a system of laws of nature, laws of God, permeating the universe governing everywhere, from the smallest particle of the atom up through all creation, up through the great systems of worlds that light up the skies on a clear night.

I looked at the trees, really looked at them. I knew they were not making themselves. They were being built. The rosebush in our yard was not making the rose blossom. It could not do it. It could not get exactly the right amount of sunshine, soil, air, and water, and build them into the living flower. I knew the stars did not know where they were going nor when to turn over.

AS I went away from the farm and broadened my contacts and began to examine other things, I discovered that as we had gone from the log house to the skyscraper, from the wagon road to the road of steel, from the ox-cart to the airplane, as we had moved into this highly developed scientific age of ours, it had been accomplished by discovering the natural laws which govern in these various fields of endeavor and bringing human skill into harmony with them. By that method we had made great progress in developing formulas and in devising instrumentalities such as machinery, which make it possible for human beings to work in harmony with these laws.

The initial step and every succeeding step in what we designate as the progress of this age has been achieved by familiarizing ourselves with natural law and doing things according to that law which inheres in the nature of things, which indicates the plans of nature and compels its execution, that law which human beings may not question and may not disregard.

Nowhere in all the fields of human endeavor, human responsibility and human necessity, except one, is there now in this age an attempt among intelligent human beings to go forward except as directed and guided by natural law, and that is the field of human government. There we are governed by the theories of man.

In our constitutional conventions they talked about the plan of nature, the laws of nature, operating in the field of government. Their discussions clearly show they recognized that free governments are not accidents, that they are provided for in the big economy, that they originate, develop, and operate under natural laws, and that it is fixed in human nature, in the difficulties of social life, the absolute necessity that there shall be government.

It is not an accident that there is in the human heart an aspiration to be free. It is God-implanted, just as it is fixed in human nature, in the difficulties of social life, the for food. Nature could have created human beings so there would have been no necessity for government and no necessity for food; no necessity for anything. Everything would already have been provided. But that is not the plan of nature. People long to be free that they may struggle to gain liberty and be vigilant, thoughtful, patriotic, and brave, to preserve their liberty; that they may do their thinking and gain development by the effort, and then that they shall render in civic service that which is required to preserve their capacity to govern.

A democracy is a government by the people. It is a group of private citizens got together for the purpose of engaging in common enterprise of governing themselves. When they shall have taken that initial step nature begins to operate upon that which they have initiated, just as it begins to operate upon that which the farmer has initiated when he puts the seed in the seed bed. That which human beings do in the copartnership between them and nature is relatively small, but it is important.

The surgeon does not heal the broken bone. Nature does that. The surgeon does an important part in the common undertaking, but he does that important part well only when he has first discovered the natural laws which determine how he ought to do his part of the job. His skill and his success depend upon how well he conforms to those laws.

That is equally true with regard to operating systems of democratic government. The point I want to make now is that democratic government in a highly developed scientific age, where men are making great progress and doing great things because they discover and are obedient to natural law, creates difficulties which make it impossible for democratic government to survive unless it too is made to conform to the laws of nature provided for the guidance and assistance of people engaged in the common enterprise of governing themselves.

THE natural laws which govern the body governmental, the governmental entity, are strikingly similar to the natural laws which govern the bodies of the individuals who make up the governmental organization. The difficulties which the operation of a system of free government provide, like all other difficulties which people confront, make up a part of the gymnastic paraphernalia designed by nature for the development of human beings. If we will bear this in mind it will guide us in the search for an understanding of the natural laws which govern democratic government. The central objective of nature is the development of people. That is what this struggle is for down here on this earth. It is not an easy thing for people to remain free. It is a difficult thing, which is just another way of saying that it is a developing thing. Progress is uphill, not downhill. It is slow, not fast. It is difficult, not easy. It is the road of struggle, but it is the road of life. Along that road lies the thrill of victory.

We have been under the spell of a false philosophy teaching that the right way is the easy way and the quick way. There was never a thing more false than that. The road of progress is not quick, not fast. It is not easy. It is uphill. There is climbing and effort and struggle, but it is the road of strength. The road downhill may be alluring, but it is the lure of death in so far as our democracy is concerned. The road of democratic progress, therefore, is in that direction which puts the opportunity to govern and the necessity to govern, the necessity to think and work and sacrifice, closer and closer to the people. Nature does not give something for nothing. It has a double-entry system of bookkeeping.

In these facts we find the philosophy of what used to be known as States' rights. But the right of the States to govern was never important. The *necessity* of the States to govern in matters within their governmental capacity was always of fundamental natural importance, because it is in their governmental organizations, made up in the main of small units of governments like cities, counties,

etc., that the individual has the most to do, and a chance to do it; a machinery which he can operate.

Many people who seem honestly to feel themselves to be progressive and have claimed for themselves the designation of Progressives, as a matter of fact have been great reactionaries. They have favored moving governmental power away from the people, out of the units of government susceptible of popular control, into the central government at Washington where these powers can be exercised only through bureaucratic organizations impossible of popular control.

Local government is the foundation of organized democratic government. The individual is the unit of democratic government. No local government can be any stronger or more efficient than the individual citizens who constitute it. The State government can be no stronger nor better than the local units of government, the aggregate of which make up the government of the States. The Federal Government can be no better nor stronger as a democracy than the States, which constitute the foundation upon which the Federal organization rests.

These things are not controlled by the theories of men. They are controlled by natural laws which determine the structure, the character, and the source of strength and power of a democratic government.

History shows conclusively that no people except by conquest ever lost their opportunity to be free until they had first lost their capacity to govern themselves, and that no people who had lost the capacity and the will to govern themselves were ever able to remain free. The explanation is a very simple one. There has to be government. It is fixed in human necessity there shall be government, and whenever the people are no longer able to tender themselves as instrumentalities to do the business of government, government of necessity lays its hand on a Hitler or a Mussolini, or shifts its power and responsibility to a bureaucracy or some other nondemocratic form of government.

If you will examine the history of the experiences of people in the field of government you will find no exceptions. The important question, therefore, that confronts all peoples who aspire to be free is what policy of government is most calculated to preserve and develop governmental capacity of the citizen and hold the powers of government in the units which they can best operate.

IF THE States in our system, which constitute our organized democracies, shift the powers of government which they possess to the Federal Government, the power to do the things which they have surrendered departs from those States and they are left with less and less total power to discharge their remaining responsibilities.

The same sort of thing is true of the counties, and cities, and towns, and the individual citizen. These things are determined by natural law. The people are punished for disregarding nature's plan. That plan is effectuated as much by the limitations imposed upon individual human capacity as by the capacity given to human beings. It is perfectly clear that nature, God, the Big Boss, has provided in His plan for a democracy in opportunity of people to develop by exercising their capacity to govern so that they may be free, instead of having an arrangement under which a few individuals hungry for power and place may dominate and dwarf the great mass of people because that great mass of people are denied the necessity

to do the things for themselves, to discharge the difficulties which nature has designed for their development. The evidence is conclusive that democratic government is in harmony with the workaday plan of the Big Boss.

I recognize that the individual is not in a position to have an independent dependable judgment with reference to many separate matters of legislation or governmental policy. Often they are interrelated with many other matters. But nature has so arranged that the average citizen may be guided to sound judgment with reference to basic governmental policies by what is taught by his own observation and experience. If Uncle Sam could do everything for everybody, life would not be worth living.

YOU know what makes a football team the champion? It is not playing against weak opposition, nor having somebody else carry the ball. It is difficulties. Even from the standpoint of fun and interest there would be mighty few thrills in the game either for the players or the spectators if the rules of the game were such that each team could have a pleasant march across the field to each other's goal. If you want to know why we have to have an independent judiciary, you can see it right there. There is a man out on the field; I believe he is called a referee. As a matter of fact he is a judge, as much a judge as any judge on the bench. If you watch you can see the operation of a natural law that governs the business of judging. It operates everywhere. The referee must know the rules of the game. That requirement runs all the way up the line, to the highest court in the world. He has got to be able to see the plays as they are played. He must call them as he sees them. These make up judicial qualification and judicial integrity for all judges just the same. It is a law which inheres in the nature of things. If this referee has in his mind that he would like for either of the teams to win, he is not fit to referee the game. That same thing runs all the way up the line to the highest judge in the world. If that referee shades his decisions or attempts to modify the rules of the game while the game is being played, in order to throw the decision where he wants it to go, that is judicial dishonesty, all the way up the line.

Only a level-headed, clear-thinking, patriotic people who understand the nature of democratic government and what policies tend toward its preservation and what policies tend toward its destruction have a chance to survive as a free people. If you will make an independent examination of these things which I have brought to your attention, you will have no difficulty in determining that democratic government is the sort of government designed by Nature for human beings. You will discover that the difficulties for the individual connected with the operation of democratic government does not indicate that it ought to be abandoned, but quite to the contrary. They constitute, as I have stated, the gymnastic paraphernalia provided by God for the development of His creatures. Human beings are not given the aspiration to be free and then denied the opportunity and capacity to attain to this nature-implemented aspiration.

You will find that those who in the name of progress favor relieving the States, the small units of government, and the individual of the necessity to do the things—difficult things—which are within their capacity, instead of being progressives are reactionaries of the rankest type. They presume to be wiser than God.

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